

---

**Center for Civic Education's Administration of the  
We the People Program  
and  
Cooperative Civic Education and Economic  
Education Exchange Program**

---

**FINAL AUDIT REPORT**



**ED-OIG/A09I0010  
November 2009**

---

Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.

---

U.S. Department of Education  
Office of Inspector General  
Sacramento, California

---

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF INSPECTOR GENERAL

Audit Services  
Sacramento Region

November 20, 2009

Charles N. Quigley  
Executive Director  
Center for Civic Education  
5145 Douglas Fir Road  
Calabasas, CA 91302-1440

Dear Mr. Quigley:

Enclosed is our final audit report, Control Number ED-OIG/A09I0010, entitled *Center for Civic Education's Administration of the We the People Program and Cooperative Civic Education and Economic Education Exchange Program*. This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

Thomas Skelly  
Acting Chief Financial Officer  
Office of the Chief Financial Officer  
U.S. Department of Education  
LBJ Building, Room 5W313  
400 Maryland Avenue, S.W.  
Washington, D.C. 20202

Kevin Jennings  
Assistant Deputy Secretary  
Office of Safe and Drug-Free Schools  
U.S. Department of Education  
Potomac Center Plaza, Room 10087  
550 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20024

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

Charles N. Quigley

Page 2 of 2

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Raymond Hendren  
Regional Inspector General for Audit

Enclosures

---

## TABLE OF CONTENTS

---

	<i>Page</i>
<b>ACRONYMS/ABBREVIATIONS USED IN THIS REPORT .....</b>	<b>i</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>BACKGROUND .....</b>	<b>3</b>
<b>AUDIT RESULTS .....</b>	<b>5</b>
<b>FINDING NO. 1 – Center for Civic Education’s Financial Management     System Did Not Meet Required Standards for     Administering the Federal Education Grants .....</b>	<b>6</b>
<b>FINDING NO. 2 – Center for Civic Education Did Not Distribute the     Number of Free Textbooks It Printed with Grant Funds     and Improperly Charged the We the People Program     Grant for Costs of Retail Textbooks .....</b>	<b>21</b>
<b>FINDING NO. 3 – Center for Civic Education Used Predetermined     Percentages for Personnel Costs Charged to the We     the People Program and Cooperative Civic Education     and Economic Education Exchange Program Grants.....</b>	<b>28</b>
<b>FINDING NO. 4 – Center for Civic Education Charged Costs to the We     the People Program and Cooperative Civic Education     and Economic Education Exchange Program Grants     That Were Not Reasonable, Necessary, or Allocable to the     Programs.....</b>	<b>35</b>
<b>FINDING NO. 5 – Center for Civic Education Did Not Properly Allocate     or Provide Adequate Supporting Documentation for     Other Direct Costs Charged to the We the People     Program and Cooperative Civic Education and     Economic Education Exchange Program Grants .....</b>	<b>42</b>
<b>FINDING NO. 6 – Center for Civic Education Improperly Charged the     We the People and Cooperative Civic Education     and Economic Education Exchange Program Grants for     Direct Costs That Were Based on Estimates .....</b>	<b>48</b>

**FINDING NO. 7 – Center for Civic Education Did Not Properly Execute  
and Monitor Its Contracts for the Cooperative Civic  
Education and Economic Education Exchange Program ..... 51**

**OBJECTIVES, SCOPE, AND METHODOLOGY .....57**

**Enclosure 1: Awarded Amount for Each Grant and Costs Charged to the  
Grants for the Period August 1, 2007, to July 31, 2008.....60**

**Enclosure 2: Lodging Costs Above the GSA Rates .....61**

**Enclosure 3: Questioned and Unsupported Costs Related to Business Meals.....62**

**Enclosure 4: Summary of OIG Review of Selected We the People Program Grant  
Transactions .....63**

**Enclosure 5: Summary of OIG Review of Selected Cooperative Civic Education  
and Economic Education Exchange Program Grant Transactions .....64**

**Enclosure 6: E-Mail Sent to CCE Employees Regarding Timesheet Preparation.....65**

**Enclosure 7: CCE Comments.....66**

## Acronyms/Abbreviations Used in This Report

---

<b>Arab Civitas</b>	Arab Civitas Grant
<b>C.F.R.</b>	Code of Federal Regulations
<b>CCE</b>	Center for Civic Education
<b>CFO</b>	Chief Fiscal Officer
<b>Citizen and the Constitution</b>	We the People Citizen and the Constitution Program
<b>Cooperative Program</b>	Cooperative Civic Education and Economic Education Exchange Program
<b>Democracy Grant</b>	Improve Public Knowledge of and Support for the U.S. Congress and State Legislatures Grant
<b>Department</b>	U.S. Department of Education
<b>EDGAR</b>	Education Department General Administration Regulations
<b>GAPS</b>	Grant Administration and Payment System
<b>GAS</b>	Government Auditing Standards
<b>GSA</b>	General Services Administration
<b>JCCES</b>	Jordanian Center for Civic Education Studies
<b>MEPI</b>	Middle East Partnership Initiative
<b>OIG</b>	U.S. Department of Education, Office of Inspector General
<b>OMB Circular A-122</b>	Office of Management and Budget Circular A-122, <i>Cost Principles for Non-Profit Organizations</i>
<b>OSDFS</b>	Office of Safe and Drug-Free Schools
<b>Project Citizen</b>	We the People Project Citizen Program
<b>Proposal</b>	2007-08 We the People Grant Proposal
<b>WTP</b>	We the People Program

---

## EXECUTIVE SUMMARY

---

The U.S. Department of Education (Department) awards grants to the Center for Civic Education (CCE) to facilitate civic education within the United States and foreign countries. The purpose of the audit was to determine whether CCE administered grants for the We the People Program (WTP) and Cooperative Civic Education and Economic Education Exchange Program (Cooperative Program) in compliance with applicable laws and regulations and grant award provisions. Our review covered CCE's fiscal year from August 1, 2007, through July 31, 2008.

We concluded that CCE did not administer the WTP and Cooperative Program grants in compliance with applicable laws and regulations and grant award provisions. CCE did not have a financial management system that met required standards for administering the Federal education grants. Its financial management system did not have controls to limit use of grant funds to the authorized period of availability or to prevent funds from being expended after the liquidation period; procedures to minimize time between receipt and expenditure of grant funds; or adequate procedures for determining the reasonableness, allocability, and allowability of costs charged to the grants. Because of these deficiencies, CCE held cash beyond its immediate needs and CCE charged unallowable costs to the grants and did not have adequate support for other charges.

CCE charged about \$23 million to the WTP and Cooperative Program grants during the period covered by our audit. From our review of about \$7.4 million of the charges, we concluded that \$1,249,603 in unallowable costs and \$4,692,501 in unsupported costs were charged to the grants. CCE improperly charged grants for costs obligated after the period of availability and/or expended after the liquidation period, printing of textbooks sold to school districts<sup>1</sup> (retail sales), employee settlement payments, travel and other business costs that were either specifically questioned or were unrelated to the grants, and costs that should have been charged as indirect costs. CCE did not have adequate support for personnel costs that were charged to grants using predetermined percentages or for the allocation of other costs that benefited more than one CCE program or activity. Based on the results of our audit, we concluded that there is no assurance that costs charged to the WTP and Cooperative Program grants, and costs not reviewed as part of our audit, were allowable and documented in accordance with Federal requirements. We also found that CCE did not distribute the number of free textbooks for which it charged the WTP grant and did not properly execute and monitor the contracts.

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the Office of Safe and Drug-Free Schools (OSDFS), consider designating CCE as a "high-risk" grantee because CCE had not implemented a financial management system that meets the required standards. We recommend that the Chief Financial Officer determine the quantity of additional textbooks that CCE should be required to distribute under the WTP grant and return funds to the Department or adjust active grants for improper charges and unsupported

---

<sup>1</sup> CCE distributes WTP textbooks free of charge and also sells the textbooks to educational organizations that are mainly school districts. For purposes of this report, we use "school district" rather than "educational organization."



costs charged to the grants, as appropriate. We also recommend several actions that the Chief Financial Officer should require CCE to take to improve its execution and monitoring of contracts.

### **Scope Limitation**

CCE required that its legal counsel be present during our interviews of CCE employees regarding the preparation of monthly timesheets. We advised CCE officials that our preference was to interview employees without the presence of a third party. We also advised them that the presence of an attorney may create a condition in which the employee being interviewed may be intimidated and thus may not speak freely. *Government Auditing Standards* (GAS), paragraph 7.60 d. states that “testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated.”

We obtained an e-mail that the Chief Fiscal Officer (CFO) had sent to CCE employees instructing them on how to explain the process used to prepare their timesheets when interviewed by the auditors (Enclosure 6). The CFO acknowledged that he distributed the e-mail to all staff to remind them of CCE’s procedures for preparing monthly timesheets. Although we did not specifically inquire about the e-mail, none of the interviewed employees acknowledged receiving the e-mail when asked whether they received any kind of communication regarding the preparation of monthly timesheets from management, the Accounting Department, or others after our initial site visit.

We curtailed our plan to conduct interviews of additional employees because the presence of the attorney may have created an environment where the employees may not be able to answer questions freely and the e-mail may have influenced employees to answer interview questions to conform to the procedures detailed in the e-mail. The information obtained during the interviews substantiated our finding that CCE used predetermined percentages to charge personnel costs to the grants. However, other information regarding the allowability of the personnel costs may have come to our attention if the interviews had been conducted in an unrestricted environment and the e-mail had not been sent to the employees prior to the interviews.

A draft of this report was provided to CCE for review and comment on June 15, 2009. We received CCE’s comments, along with additional documentation, on August 14, 2009. In its comments, CCE disagreed with most of the findings and recommendations. We have summarized CCE’s comments at the end of each finding. We have also provided our response after the summary of CCE’s comments. Based on CCE’s comments and additional documentation provided, we revised parts of our original findings and recommendations.

Except for personally identifiable information (that is, information protected under the Privacy Act of 1974 (5 U.S.C. § 552 a)), the entire narrative of CCE’s comments is included as an Enclosure to this report. All personally identifiable information mentioned in CCE’s comments was replaced with bracketed text. Because of the voluminous nature of the attachments to CCE’s comments and the personally identifiable information within, we have not included them in the Enclosure. Copies of the attachments to CCE’s comments, less any personally identifiable information, are available on request.

---

## BACKGROUND

---

CCE is a non-profit corporation located in Calabasas, CA, and was started in 1969. CCE specializes in civic and citizenship education, law-related education, and international educational exchange programs for developing democracies. The programs focus on the U.S. Constitution and Bill of Rights; American political traditions and institutions at the Federal, State, and local levels; constitutionalism; civic participation; and the rights and responsibilities of citizens.

In its financial statements for fiscal year 2007, CCE reported about \$22.4 million of total revenue. CCE reported receiving about 82 percent of its revenue from the Department. The remaining revenue came from grants from other Federal agencies<sup>2</sup> (10 percent), textbook sales (4 percent), grants from other organizations (2 percent), and investment income (2 percent).

During our review period, CCE received and expended Federal funds under the following programs:

- WTP is an instructional program for elementary, middle, and high school students on the principles of the U.S. Constitution and the Bill of Rights. Its goal is to promote understanding for the principles and values on which the political institutions are based. The program is available to public and private elementary and secondary schools located in congressional districts, the District of Columbia, Puerto Rico, American Samoa, Guam, and the U.S. Virgin Islands (Congressionally-Directed Grants).<sup>3</sup>
- The Cooperative Program covers the following activities: 1) develop exemplary curricula and teacher training programs in civics, government, and economic education within the United States and other eligible countries; 2) assist eligible countries in the adaptation, implementation, and institutionalization of such programs; 3) create and implement civics, government, and economic education programs for students that draw upon the experiences of participating eligible countries; and 4) provide a means for the exchange of ideas and experiences in civics, governmental, private sector, and education leaders of participating eligible countries. Twenty-five percent of the appropriation for the Cooperative Program is available for one to three competitive grants and contracts (Competitive Direct Grants). The remaining portion is allocated 37.5 percent for a grant to CCE and 37.5 percent for a grant to the National Council on Economic Education (Congressionally-Directed Grants).

---

<sup>2</sup> CCE received about \$2.6 million of revenue from grants awarded by other Federal agencies. About \$2.1 million of the \$2.6 million was from grants awarded by the U.S. Agency for International Development. The remaining revenue was from grants awarded by the U.S. Department of Justice, U.S. Department of State, and the National Endowment for the Humanities.

<sup>3</sup> Congressionally-Directed Grant is defined as a grant that is targeted to an entity at the request of a Senator providing, authorizing, or recommending a specific amount of discretionary budget authority. A Congressionally-Directed Grant is appropriated to an entity in a manner other than through a statutory or administrative formula-driven or competitive award process.

The programs are authorized under the Education for Democracy Act (Elementary and Secondary Education Act § 2343 et. Seq.) and administered by the Department's OSDfS. CCE has received funding for the WTP since 1987 and funding for the Cooperative Program since 1995. Enclosure 1 provides the grant numbers, performance periods, award amounts, and amount of costs charged to the grants during our audit period for the WTP and Cooperative Program.



Based on the results of our audit, we concluded that there is no assurance that the \$15,616,270 (\$22,997,207 less \$7,380,937) charged to the WTP and Cooperative Program grants, which we did not review as part of our audit, were allowable and supported in accordance with the Federal requirements.

Qualification of Audit Results. As discussed in the Objectives, Scope, and Methodology section of the report, under Scope Limitation, we curtailed our plan to conduct interviews of additional employees to substantiate the allowability of personnel costs charged to the WTP and Cooperative Program grants because of our concerns regarding the presence of the attorney and the e-mail that was distributed to employees.

### **FINDING NO. 1 – CCE’s Financial Management System Did Not Meet Required Standards for Administering the Federal Education Grants**

Education Department General Administration Regulations (EDGAR), *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, provide standards for the administration of grants (34 C.F.R. § 74.21(b)). CCE’s financial management system did not meet three of seven standards required as a condition of receiving funds from Federal education grants as follows:

Recipients' financial management systems shall provide for the following:

\* \* \* \* \*

(3) Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all assets and assure they are used solely for authorized purposes....

\* \* \* \* \*

(5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient....

\* \* \* \* \*

(6) Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award....

#### **CCE Did Not Have Controls to Limit Use of Grant Funds to Authorized Periods**

The WTP and Cooperative Program grants have performance periods during which grant funds are available for use. EDGAR 34 C.F.R. § 74.71(b) states “[u]nless the secretary authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award....” Also, EDGAR 34 C.F.R. § 74.28 states “[w]here a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period....” CCE did not have controls to ensure that all grant funds were expended within 90 days of the last day of the grants’ performance period (liquidation

period) and that costs charged to the grants were for obligations incurred during the grant performance period (period of availability). As a result, CCE improperly charged the grants for obligations that were incurred after the end of the liquidation period that included any grant extensions authorized by the Department.

We identified seven transactions, totaling \$862,442 of about \$2.2 million reviewed,<sup>4</sup> which were charged to the WTP grants for printing costs and Cooperative Program grants for contract services that were expended after the end of the liquidation period that included any grant extensions authorized by the Department. Table 2 shows the costs for the seven transactions that CCE charged to the grants after the liquidation period. The first five transactions shown in Table 2, totaling, \$572,442 were also not obligated during the period of availability.

<b>Table 2. Costs Charged to the Grants that Were Expended After the Liquidation Period and/or Obligated After the Period of Availability</b>					
<b>CCE Subaccount/ Grant No.</b>	<b>End of Grant Performance Period</b>	<b>Date Obligation Incurred (a)</b>	<b>Transaction Date</b>	<b>Payee</b>	<b>Amount Charged to the Grants</b>
<b>WTP Grants</b>					
CC04-5/ Q929A040001	04/30/2005	08/10/2007	10/31/2007	Sinclair Printing	\$ 11,679 (b)
CC05-6/ Q929A050001	04/30/2007	08/10/2007	10/31/2007	Sinclair Printing	\$112,751
CC05-6/ Q929A050001	04/30/2007	06/08/2007	09/19/2007	Sinclair Printing	\$335,210
Total – WTP Grants					\$459,640
<b>Cooperative Program Grants</b>					
AF2/ Q304A030004	09/30/2006	03/06/2007	10/05/2007	Bowling Green State University	\$100,000
AF2/ Q304A030004	09/30/2006	10/04/2006	09/28/2007	American Federation of Teachers	\$12,802
AF2/ Q304A030004	09/30/2006	08/24/2005	10/5/2007	Bowling Green State University	\$100,000
INT-3 Q304B040001	02/28/2007	08/26/2004	10/15/2007	Bowling Green State University	\$190,000
Total – Cooperative Program Grants					\$402,802
<b>Overall Total</b>					<b>\$862,442</b>
(a) Date the purchase order was issued or date the contract was signed. (b) The actual cost to the grant was \$11,478. CCE erroneously charged \$201 in excess of the actual cost.					

<sup>4</sup> The \$2.2 million comprised the total amount of selected transactions: \$1,143,059 (WTP) and \$1,040,376 (Cooperative Program). See Enclosure 4 and Enclosure 5 for Summary of OIG Review of Selected WTP Grant Transactions and Cooperative Program Transactions, respectively.

Also, CCE charged \$63,665 to the Cooperative Program Grant Q304B070001 for costs related to a contract with Bowling Green State University in which the contractor performed and completed the work prior to the beginning of the grant period. The contract was signed on December 21, 2006 and the contracted work was completed on May 31, 2006. The grant period for this Cooperative Program Grant began on June 1, 2007.

At the exit conference, CCE provided us a written response that explained its reasoning for the use of grant funds after the period of availability. CCE explained that its CFO did not think that it was a significant problem to use older grant funds in the current year to support activities that were a continuation of prior grant activities since the Department awards WTP and Cooperative Program grants to CCE each year to support what is essentially the same program. The CFO mistakenly thought that the older grant funds could be used in the current year since the Department awards WTP and Cooperative Program grants to CCE each year. The Executive Director stated that CCE still needed to verify that fund accounts from the older grants were closed.

**CCE Did Not Have Procedures to Minimize Time Between Receipt and Expenditure of Grant Funds and Did Not Maintain Federal Funds in an Interest-Bearing Account**

CCE requested Federal funds through the Department's Grant Administration and Payment System (GAPS). When grantees request Federal funds in advance, they must limit the cash advances to the immediate needs of the Federal program. EDGAR 34 C.F.R. § 74.22(b) states—

(2) Cash advances to a recipient organization are limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

\* \* \* \* \*

(3) The timing and amount of cash advances are as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

To remind grantees of these requirements, GAPS asks grantees to respond to the following statement when initiating a request for Federal funds:

I certify, by processing this payment request and/or reallocation, that the funds are being expended within three business days of receipt for the purpose and condition of the grant or agreement. Are you sure you want to submit the request?

CCE did not have procedures to minimize the time between receipt and expenditure of grant funds. Our analysis of GAPS information and CCE's charges to the grants from August 1, 2007, through July 31, 2008, identified 98 transactions, totaling about \$1.7 million, which were charged to the grants after CCE made the last GAPS draw for the grant. None of the 98 transactions occurred within "three business days" of CCE's receipt of the funds. The transactions typically occurred weeks, months, and, in a few cases, more than a year after the last

draw of grant funds. As a result of drawing down funds in excess of need, CCE had use of those funds and therefore should pay the Federal government interest for use of those funds. Table 3 shows CCE's expenditures after the last drawdown of the grant funds.

<b>Table 3. Expenditures After the Last Drawdown from Grant Awards August 1, 2007, through July 31, 2008</b>					
<b>CCE Subaccount</b>	<b>Grant No.</b>	<b>Date Received Balance of Grant Funds (a)</b>	<b>Charges After Received Balance of Grant</b>		
			<b>Time Period of Charges</b>	<b>Number of Charges</b>	<b>Total Expenditures</b>
CC06-7	Q929A060001	01/25/2008	01/29/08-07/24/08	29	\$86,806
CC05-6	Q929A050001	01/22/2007	08/24/07-03/07/08	6	\$450,605
CC04-5	Q929A040001	07/13/2005	10/31/07	2	\$16,797
<b>Total – WTP Grants</b>				<b>37</b>	<b>\$554,208</b>
INT-5	Q304B060001	10/11/2007	10/26/07-07/02/08	11	\$683,442
INT-4	Q304B050001	06/01/2006	08/17/07	1	\$9,835
INT-3	Q304B040001	01/31/2006	10/05/07	1	\$190,000
<b>Total – Cooperative Program Grant</b>				<b>13</b>	<b>\$883,277</b>
LA 5	R304A020008	05/12/2008	05/30/08-07/09/08	27	\$43,548
LA 4	R304A020008	01/16/2007	11/16/07-08/07/08	15	\$31,168
LA 3	R304A020008	08/08/2006	08/10/07-10/23/07	3	\$19,084
<b>Total – Cooperative Program Grant LA</b>				<b>45</b>	<b>\$93,800</b>
AF2	Q304A030004	09/18/2006	09/28/07-10/05/07	3	\$212,802
<b>Total – Cooperative Program Grant AF</b>				<b>3</b>	<b>\$212,802</b>
<b>Total</b>				<b>98</b>	<b>\$1,744,087</b>
(a) Date shown is the GAPS transaction date for the confirmed deposit of the remaining funds available for the grant.					

As disclosed by CCE staff when explaining its drawdown procedures and substantiated by its bank statements, CCE did not maintain the Federal funds from its drawdowns in an interest-bearing account as required by Federal regulations. EDGAR 34 C.F.R. § 74.22(k) states that “[r]ecipients shall maintain advances of Federal funds in interest bearing accounts....” In addition, EDGAR 34 C.F.R. § 74.22(l) requires grantees to remit annually to the Federal government any interest earned on Federal cash advances over \$250.

The CFO informed us that CCE did not have written policies and procedures covering cash management of Federal grant funds. The CCE employee responsible for initiating GAP draws stated that CCE monitors the cash balance in its non-interest bearing bank account. When the cash balance falls to about \$100,000, additional funds are drawn for the grants that show negative cash balances in CCE's accounting system. The employee explained that, typically, half of the amount to raise the checking account balance is drawn from the WTP grants because those grants comprise the highest dollar awards, a quarter is drawn from the Cooperative Program grants, and the remaining quarter is drawn from other sources. However, our review of CCE's monthly bank statements for the 11-month period ending June 30, 2008, showed that CCE did not adhere to the procedures the employee described. The bank statements showed that CCE had daily balances well over \$100,000 for all but one business day; furthermore, the



checking account balance exceeded \$1 million each day during the months of October 2007, November 2007, and January 2008.

At the exit conference, CCE provided us a written response that indicated that the CFO was in error when he stated that CCE did not have policies and procedures for cash management. CCE's written procedures state that "[t]he cash balances of all grants are taken into consideration when determining which funding agency to draw from." However, the written procedures do not address limiting the cash advances to the immediate needs of the grant program.

### **CCE Did Not Have Adequate Procedures for Determining the Reasonableness, Allocability, or Allowability of Costs Charged to the Grants**

EDGAR 34 C.F.R. § 74.27(a) requires a non-profit organization to follow the cost principles in Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations* when determining the costs that may be charged to the Federal grants. OMB Circular A-122, Attachment A, paragraph A.2 lists the factors that affect the allowability of costs.

To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.
- b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- g. Be adequately documented.

Paragraph A.3 states that "[a] cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs."

Paragraph A.4 states that "[a] cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received."

**Personnel Costs.** As explained in Finding No. 3, CCE used predetermined percentages to allocate personnel costs charged to the WTP and Cooperative Program grants. CCE did not have written procedures for completing the monthly timesheets for personnel costs charged to the grants. From interviews discussed in Finding No. 3 and our review of timesheets from January 2008 through April 2008, we concluded that CCE did not have documentation to support

that the \$3,209,373 charged to the grants for salaries was properly allocated to the grants. Table 6 shows the total personnel costs charged to the WTP and Cooperative Program grants. **Non-personnel Costs.** We reviewed CCE's draft written procedures for accounting for costs and its internal controls over receipts and disbursements. The procedures did not include the process for determining and approving the reasonableness, allocability, and allowability of costs which may have contributed to CCE improperly charging costs to the grants. As discussed later in Findings No. 2, No. 4, No. 5, and No. 6, CCE improperly charged the grants \$323,496<sup>5</sup> of non-personnel costs and \$1,483,128 of costs that were unsupported. Of the \$323,496 improperly charged to the grants, \$172,141 was charged to the grants based on estimates that should have been included in CCE's indirect cost rate (Finding No. 6).

As discussed in Finding Nos. 2 through 6, our review found that CCE did not determine whether the costs charged to the grants were reasonable, allocable, allowable, and supported. CCE improperly charged non-personnel costs, totaling \$323,496, and did not have documentation for costs, totaling \$4,692,501, to support that those costs were reasonable, allocable, and allowable to the grants. The recommended corrective actions for the improper and unsupported charges are indicated in the respective findings.

As discussed later in the Objectives, Scope, and Methodology section, we could not verify the completeness of the charges to the active grants in CCE's revenue and expenditures database because CCE did not draw down grant funds based on grant expenditures.

### **The Department Should Designate CCE as a High-Risk Grantee**

The Department is allowed to impose special award conditions when a grantee has exhibited any one of the "high-risk" attributes. CCE did not have a financial management system meeting required standards for administering the Federal education grants. EDGAR 34 C.F.R. § 80.12(a) states:

A grantee or subgrantee may be considered "high-risk" if an awarding agency determines that a grantee or subgrantee:

\*\*\*\*\*

(3) Has a management system which does not meet the management standards set forth in this part....

\*\*\*\*\*

CCE did not limit the use of grant funds to authorized periods of availability and did not have controls to minimize the time between receipt and expenditure of grant funds. Also, CCE did not have adequate procedures for determining the reasonableness, allocability, and allowability of costs charged to the grants. Based on these significant findings, CCE should be designated as a "high-risk" grantee. This designation will help provide reasonable assurance that the WTP and Cooperative Program grant funds are used during the grants' authorized period of availability

---

<sup>5</sup> The amount comprised \$1,249,603 of questioned costs (Table 1) less \$862,442 of questioned costs for charges after the expiration period (Table 2) and \$63,665 charged to a grant for cost incurred prior to the start of the grant period.

and expended prior to the end of the liquidation period; used for the immediate needs of the grants; and used for costs that are reasonable, allocable, and allowable to the grants.

## **Recommendations**

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the OSDFS, require CCE to—

- 1.1 Return to the Department the \$862,442 charged to the grants identified in Table 2 that were paid after the applicable grants' liquidation period and \$63,665 charged to a grant for costs incurred prior to the start of the grant period.
- 1.2 Review costs for the Department grants recorded in its accounting system from August 1, 2007, to July 31, 2008, and subsequent fiscal years, to determine whether any other costs were obligated after the period of availability, expended prior to the grant period or expended after a grant's liquidation period, and return funds used for those costs to the Department.
- 1.3 Implement procedures to ensure that available grant award balances are adjusted timely so that grant costs are not incurred before or after a grant's period of availability and grant costs are not expended after the liquidation period.
- 1.4 Maintain Federal funds in an interest-bearing bank account.
- 1.5 Calculate the average daily balance of Department grant funds on hand in excess of its immediate needs for payment of expenditures for grant activities from August 1, 2007, through July 31, 2008, and subsequent fiscal years, and reimburse the Federal government for interest for the use of funds in excess of its needs as a result of the early draw down of the Department grant funds.
- 1.6 Calculate and return all cash currently held in excess of any Department grants' immediate needs.
- 1.7 Implement procedures to limit requests for Department funds to CCE's immediate needs for the performance of grants.
- 1.8 Engage an independent public accountant to perform a 100-percent review of non-personnel costs charged to Department grants from August 1, 2007, to July 31, 2008, and subsequent fiscal years, that were not covered by our review to determine whether the costs are reasonable, allocable, and allowable charges to the grants, and, for any unsupported or questioned amounts, adjust grant expenditures or return the grant funds to the Department, as appropriate.
- 1.9 Implement written policies and procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable OMB cost principles and the terms and conditions of the award.

- 1.10 Obtain attestation from an independent public accountant that the policies and procedures implemented contain sufficient controls to provide reasonable assurance of preventing or promptly detecting improper charges to Federal education grants.

In addition, we recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the OSDFS—

- 1.11 Determine whether to designate CCE as a “high-risk” grantee and place special conditions on all future Department grant funds provided to CCE.

## **CCE Comments and OIG Responses**

CCE disagreed with our finding and recommendations and provided comments to each section of our finding.

### **CCE’s Financial Management System Did Not Meet Required Standards for Administering the Federal Education Grants**

*CCE Comments.* CCE believes that its financial management systems complied with applicable regulations and that the finding is not supported by the specific and concrete issues identified. CCE stated that all expenditures were accounted for and, with a few minor exceptions, costs were incurred for authorized purposes specified in its proposal and budget approved by the Department. CCE added that an independent auditing firm has conducted annual audits in accordance with OMB Circular A-133 and consistently found that CCE complied with Federal laws and regulations and grant requirements applicable to each major Federal program.

CCE claimed that the funds that were mistakenly used for unauthorized purposes were the result of bookkeeping errors or program staff charging incorrect accounts and were a very small percentage of the total Department funds that were audited. CCE believes that the mistakes do not reflect serious systemic shortcomings in its controls over the accountability of the grant funds. CCE objected to our recommendation for CCE to engage an independent public accountant to perform a 100-percent review of non-personnel costs not covered by our audit because it would be time consuming, expensive, and unnecessary given the audit scope and issues identified. CCE stated that our principal basis for the finding relates to the periods that funds were obligated, which is not a systemic deficiency—instead they result from a disagreement or misunderstanding of the applicable requirements.

CCE added that under Section 452 of the General Education Provisions Act, the recovery of grant funds by the Department is unjustified because the audit cited minor deviations in the processes for accounting and the costs identified as questioned or unsupported in the draft audit report were for the proper use of grant funds and grant purposes. Therefore, the return of grant costs recommended to the Department is not proportional to the harm CCE’s violations caused to the Federal grant programs.

CCE also stated that it had policy and procedures manuals during the audit period that included written procedures for minimizing the time between receipt and expenditure of grant funds,

timesheet preparation, and determining the reasonableness, allocability, and allowability of costs charged to grants. CCE claimed that its attorney provided us its written financial policies during the audit. CCE also listed examples of materials provided to them by the Department that are relevant to administering grant programs and cited other Federal agencies that it received similar material from. CCE states that it has revised its policies and procedures, instituted a training program for program and fiscal staff, and assigned a CCE official to oversee compliance with Federal regulations.

*OIG Response.* The audit report contains specific findings supported by audit evidence showing that CCE did not liquidate \$862,442 of costs within the liquidation period, did not incur \$572,442 of the \$862,442 within the period of availability, did not expend \$63,665 of costs in the proper grant period, did not minimize the time between receipt and expenditure for \$1.7 million of grant funds, and did not determine whether \$5,015,997<sup>6</sup> of grant costs were reasonable, allocable, allowable, and adequately supported.

Regardless of the results of audits performed by others to assess CCE's administration of Department grants, ED-OIG's audit was conducted independent of any other audits and conclusions reached were solely based on the audit evidence reviewed and analyzed by us.

CCE stated that it reimbursed the appropriate Department grants for travel and business meal costs totaling \$6,296. CCE indicated that these costs were improperly charged to Department grants due to bookkeeping errors or program staff charging the incorrect accounts. Due to the nature of the travel and meal costs, we selected a small sample of transactions which had over 66 credit card charges. There was a high frequency of noncompliance that showed a systemic problem where CCE did not determine whether those costs were reasonable, allocable, and allowable. CCE is incorrect that its mistakes are not systemic because without procedures for determining reasonableness, allocability, and allowability for costs the mistakes affect all grants and activities administered by CCE.

The issue related to the periods that funds were obligated was not the basis for our finding regarding CCE's financial management system. As explained above the report cites other material findings regarding CCE's financial management system. Despite this, disagreement or misunderstanding of the applicable requirements that lead to management's policy allowing funds to be obligated after the period of availability is a systemic problem.

The questioned and unsupported costs in the audit report are supported by audit evidence showing they were not compliant with Federal regulations. The recommendation for a 100-percent review is warranted based on our results from the testing that we conducted. The amounts and recommendations that are sustained by the Department will be determined in the audit resolution process.

As explained later in our response to CCE's comments to specific findings, CCE did not specifically identify or present the policies and procedures described in its comments during the audit. Also, CCE employees performing cash management and payroll functions were unaware of the policies and procedures that CCE claimed existed. We commend CCE for revising its procedures to address our concerns in the report, and for implementing a program of staff

---

<sup>6</sup> The \$5,015,997 is comprised of \$4,692,501 of unsupported costs and \$323,496 of questioned costs.

development in their use, since it appears that CCE staff were unaware of some existing procedures.

CCE Did Not Have Controls to Limit Use of Grant Funds to Authorized Periods

*CCE Comments.* CCE stated it does not agree that any costs were “obligated after the period of availability” because the costs were charged to multi-year grants, and if they were not, the Department should recognize them as multi-year grants. CCE claimed that Congress authorizes CCE’s programs for periods ranging from five to seven years and each year’s program is essentially a continuation of the prior years’ program. For this reason, CCE believes its programs should be viewed by the Department as multi-year projects and that the provisions of EDGAR 34 C.F.R. 75.250, 251, and 253 should apply to these grants. This would mean that CCE could “expend funds that have not been obligated at the end of a budget period for obligations of the subsequent budget period...” cited at 34 C.F.R. 75.253(c)(1)). CCE stated that since Congress treats the program as a multi-year project, it believes that the Department should do so as well. CCE stated that its CFO was provided a document entitled “The *Expanded Authorities* Amendments” that included statements that led the CFO to believe that it was allowable to carry funds forward from a prior year.

CCE believes that the costs benefited the grant, were allocable, allowable, and reasonable, were approvable at the time that they were made, and were not made with the intention to circumvent Federal grant requirements. CCE also states that the costs identified in the finding were for allowable contract services and textbook printing. CCE explained that the contract costs identified in Table 2 of the finding shows two contractors that did not sign or submit expenditure documentation timely and were paid on a cash reimbursement method that led to this situation.

Also, CCE contends that the contract costs were obligated during the period of availability because the parties had an implied contract before the Cooperative Program Grants’ performance period. CCE stated the contracts were renewed year after year and both parties acted in a manner that shows a binding contract was executed.

CCE stated it has revised its policy and has established written procedures to facilitate the timely obligation and expenditure of grant funds within a particular grant period. CCE also stated it has implemented new policies and procedures for reviewing and approving contract proposals and budgets before the beginning of each grant period.

*OIG Response.* CCE’s comments did not change our position regarding the finding. However, we modified the finding and Recommendations 1.1 and 1.2 to include that CCE did not liquidate grant funds within the liquidation period and expended grant funds prior to the start of the grant period. Our review of 34 C.F.R. § 74.71(b) for liquidating grant funds resulted in us identifying two transactions in our sample, totaling \$290,000, that were properly obligated during the performance period but were not liquidated timely. One transaction was paid about eight months after the grant’s performance period had ended, while the other transaction was paid about a year after the grant’s performance had ended. Also, CCE charged \$63,665 to a Cooperative Program Grant for costs related to a contract with Bowling Green State University in which the contract was signed, and the work was performed and completed, prior to the beginning of the grant period.

Each of the grant awards shown in Table 2 received a unique grant award number, budget period, and performance period. The Department Grant Award Notification explains that the budget period is a specific interval of time for which Federal funds are being provided from a particular fiscal year to fund a recipient's approved activities and budget, while the performance period is the complete length of time the recipient is to be funded to complete approved activities.

For our finding, we used the performance period for each of the grants to determine whether the costs were incurred during the grant period since that is the complete length of time the recipient is to be funded to complete the grant activities. We also used the performance period end date to determine whether CCE liquidated grant funds no later than 90 days after the funding period or the date of completion, as specified in the terms and conditions of the award.

Multi-year grants also have a specified performance period as shown in CCE's Grant Award Notification for the Civitas Latin American (Grant No. R304A020008). In its comments, CCE misinterpreted 34 C.F.R. 75.253 allowing grantees to expend funds not obligated at the end of a budget period for obligations to a subsequent budget period. The Grant Award Notification further explains that a performance period may contain one or more budget periods. The Federal regulation refers to subsequent budget periods within a performance period.

The costs incurred after the period of availability are disallowed regardless of whether the costs benefited the grant, were allocable, allowable, and reasonable, were approvable at the time that they were made, or were not made with the intention to circumvent Federal grant requirements. Also, noncompliance with Federal regulations caused by the contractors' billing process and payment method does not excuse CCE from its responsibility to administer grants in accordance with Federal regulations. Furthermore, CCE's comments do not address its procedures for ensuring that all costs will be incurred during the period of availability, such as printing costs.

CCE's explanation did not convince us that it had binding contracts with Bowling Green State University and the American Federation of Teachers. We still believe that both parties had to sign the agreements for a binding contract. In addition, since CCE had long-term relationships with these contractors it is reasonable to expect that the contracts would not change dramatically from year to year and thus should easily be approved by both parties prior to the beginning of the grant period. Nevertheless, the costs were still expended after the liquidation period since CCE did not liquidate the obligation to the contracts no later than 90 days after the funding period or the date of completion, as specified in the terms and conditions of the award.

CCE did not provide us its newly established policy and procedures for timely obligation and expenditure of funds for the particular grant periods. CCE should provide its policy and procedures to the Department during the resolution process. Our responses to CCE's comments regarding its revised procedures for contracting are in Finding No. 7.

CCE Did Not Have Procedures to Minimize Time Between Receipt and Expenditure of Grant Funds and Did Not Maintain Federal Funds in an Interest-Bearing Account

*CCE Comments.* CCE asserted that in the majority of cases, it did all it could to minimize the time between receipt and expenditure of grant funds but the contractors were on a cash reimbursement basis and submitted their billing documentation extremely late to CCE. CCE

interpreted 34 C.F.R. 74.71(b) as authorizing the Department to allow CCE to hold grant funds for an extended period to reimburse the contractors. CCE also claims that its procedures for cash management saved the Federal government money. To substantiate its claim, CCE provided us its analysis of GAPS drawdowns and outstanding checks that show CCE drew down a monthly average of \$63,779 less than it expended on Department programs. CCE claimed that the Department's monitoring system did not notify CCE that it had drawn excessive amounts of cash leading them to believe that the drawdowns on an aggregate basis were not excessive. CCE also claimed that its attorney provided us its policy and procedures for cash management during the audit.

CCE said it will maintain the minimum Department funds in its cash accounts to meet its average daily needs. CCE also stated it will work with the Department to develop an acceptable means of drawing down and holding funds obligated for contractors during the grant period, to be paid to contractors upon submission of satisfactory final reports. CCE will also add the resulting policies and procedures to its manual. Lastly, CCE stated that it has established a new policy regarding contractors that have not submitted satisfactory final reports within 60 days after the end of the grant period that will result in a return of funds to the Federal government if a final report is not received within 90 days after a grant period ends.

*OIG Response.* We did not change our finding based on the information provided by CCE. However, we modified the finding to include CCE's noncompliance with Federal regulations that require recipients to maintain Federal funds in an interest-bearing account. We also added a recommendation at Recommendation 1.4 that changed the recommendation numbering thereafter. We found that CCE maintained Federal funds it received in a non-interest bearing checking account.

Regardless of whether contractors submitted claims for reimbursement late, CCE is still required to minimize the time between its drawdowns and expenditures of grant funds. CCE should not be drawing down funds until it receives an invoice and proper documentation from the contractors or other vendors. The actual draw of grant funds should not occur more than three days prior to the related disbursements.

CCE's attorney only provided us its 2006 Draft Employee Handbook. CCE did not provide us its Financial and Administrative Policies and Procedures Manual. The procedures for cash management provided to us during the audit had the steps for drawing down Federal funds but did not include procedures for minimizing the time between receipt and expenditure of the funds.

CCE's claim that its aggregate expenditures for all Department programs exceeded its drawdowns for the audit period is irrelevant because grantees are required to draw down funds based on the needs of the individual grant. Therefore, we did not substantiate the amounts or methodology of CCE's analysis.

CCE is incorrect that EDGAR 34 C.F.R. 74.71(b) authorized the Department to approve holding grant funds for an extended period. CCE's citation of the regulation is misguided because it is irrelevant to minimizing the time between the receipt and expenditure of grant funds. 34 C.F.R. 74.71(b) pertains to when grantees must liquidate all obligations incurred under the award including extensions approved by the Department. CCE drew down funds from the U.S. Treasury for each of the grants listed on Table 3, four days to over a year prior to disbursing



grant funds. Premature draws of Federal funds result in increased borrowing costs for the U.S. Treasury and should be reimbursed by CCE for the use of funds that were drawn early. The memorandum to ED Discretionary Grantees explains that grantees will be contacted for excessive cash drawdowns. The Department's drawdown monitoring is limited to reviewing the amount a grantee has drawn in relation to its remaining grant award at specific points during the budget period. The Department does not have access to CCE's expenditure information to compare to the drawdowns. Our analysis was a review of both the drawdown and expenditure data for the audit period. Whether or not the Department alerts the grantee for excessive drawdowns, it is the grantee that is ultimately responsible for minimizing the time between the receipt and expenditure of grant funds.

CCE can discuss its policy and procedures with the Department for cash management and obligating funds after the period of availability during the audit resolution process. However, under 34 C.F.R. 74.71(b), CCE is required to liquidate all obligations incurred under the award within 90 days of the grant's performance period ending date, including extensions approved by the Department. Also, CCE did not provide its written procedures for contractors that have not submitted satisfactory final reports within the required deadlines. CCE can provide documentation of its revised procedures for cash management after its discussion with the Department and the revised procedures for contractors that have not submitted timely and satisfactory final reports during the audit resolution process.

CCE Did Not Have Adequate Procedures for Determining the Reasonableness, Allocability, or Allowability of Costs Charged to the Grants

*CCE Comments.* CCE disagreed with the draft audit report's findings that (1) all of the identified costs were not reasonable, allocable, or allowable under applicable regulatory requirements and (2) that CCE did not have adequate procedures for determining the reasonableness, allocability, or allowability of these costs. CCE addressed this finding briefly in Finding 1, but responded fully in Finding Nos. 2 through 6.

*OIG Response.* As explained in Finding Nos. 2 through 6, CCE did not have adequate procedures for determining the reasonableness, allocability, or allowability of costs charged to the grants. The policy and procedures related to time and effort reporting and grant expenditures contained elements necessary for accounting for grant funds but did not have procedures for determining the reasonableness, allocability, or allowability of costs. Finding Nos. 2 through 6 also showed that CCE did not determine whether costs charged to the grants were reasonable, allocable, and supported.

The Department Should Designate CCE as a High-Risk Grantee

*CCE Comment.* CCE disagrees that the facts support the OIG recommendation that CCE should be designated as a "high-risk" grantee.

*OIG Response.* As explained in the report, CCE did not meet three of the seven standards required as a condition of receiving funds from Federal education grants and as a result should be designated as a "high risk" grantee.

## Recommendations

*CCE Comments.* CCE's response to each recommendation in Finding No. 1 of the Draft Report follows—

- 1.1 CCE obligated funds at the beginning of the grant period as set forth in its comments to the draft report.
- 1.2 CCE did not obligate costs after the applicable grant's expiration date. The legally obligated costs were paid after the applicable grant's expiration date and such costs are allowable if they were obligated during the grant period.
- 1.3 CCE has revised its procedures to ensure the timely signing of all contracts.
- 1.4 CCE drew down an average of \$63,780 less in Department grant funds each month than it was expending for the grants resulting in it functioning on a cash-reimbursement basis. For this reason, CCE did not have a cash balance of Department grant funds in excess of its needs. Furthermore, CCE questions the Department's authority to seek a recovery of funds related to advance drawdowns.
- 1.5 As explained in 1.4, CCE did not hold cash in excess of Department grants' immediate needs.
- 1.6 As noted in 1.4, CCE has consistently drawn down fewer Department funds than necessary to meet its immediate needs for the performance of the grants.
- 1.7 CCE objected to this recommendation because engaging in a time consuming and expensive task is unnecessary given the scope and nature of the issues identified in this audit and corrective actions that already have been taken by CCE. Further, this recommendation would be counterproductive and hamper CCE's capacity to fulfill its programmatic responsibilities.
- 1.8 CCE has revised its written policies and procedures, implemented a program of staff development in their use, and assigned its director of administration to oversee compliance with Federal regulations.
- 1.9 CCE will obtain the recommended attestations.
- 1.10 CCE objected to the recommendation that it should be designated as a "high risk" grantee. CCE listed reasons explaining why it should not be designated as a "high risk" grantee including that it had a financial management system that meets applicable regulatory standards.

*OIG Response.* We have made substantive revisions to our recommendations but not as a result of CCE's comments. The revisions result from our review of the sample of transactions for contract costs and our determination that costs were expended after the liquidation period or prior to the grant's period of availability.

- 1.1 The recommendation was revised to identify the \$862,442 that was not expended during the liquidation period and \$63,665 charged to a grant for costs incurred prior to the beginning of the grant period. The \$572,442 of costs that were identified in the draft report as costs incurred for the grants after their periods of availability are included in the \$862,442.
- 1.2 The recommendation was also revised to include other costs expended prior to the grant's period of availability or expended after the liquidation period.
- 1.3 The recommendation was revised to also include implementation of procedures to ensure that grant award balances are adjusted timely so that the grant funds are not expended prior to a grant's period of availability or after the grant's liquidation period.
- 1.4 The recommendation was not revised because CCE did not support its claim that it did not have grant funds on hand in excess of its immediate needs for payment of costs associated with grant activities for the audit period or subsequent fiscal year. The recommendation is Recommendation 1.5 in the final audit report.
- 1.5 The recommendation was not revised as explained in our response to Recommendation 1.4. The recommendation is Recommendation 1.6 in the final audit report.
- 1.6 The recommendation was not revised as explained in our response to Recommendation 1.4. The recommendation is Recommendation 1.7 in the final audit report.
- 1.7 The recommendation was not revised because the 100 percent review of costs during the audit period and subsequent fiscal years remains necessary. The Department will determine the actual liability during the audit resolution process. The recommendation is Recommendation 1.8 in the final audit report.
- 1.8 The recommendation was not revised because CCE did not provide documentation for policy and procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable OMB cost principles and the terms and conditions of the award. The recommendation is Recommendation 1.9 in the final audit report.
- 1.9 The recommendation was not revised. The Department will determine the adequacy of the attestation during audit resolution. The recommendation is Recommendation 1.10 in the final audit report.
- 1.10 The recommendation was not revised because CCE did not support its claim that its financial management system met applicable regulatory standards. The recommendation is Recommendation 1.11 in the final audit report.

## **FINDING NO. 2 – CCE Did Not Distribute the Number of Free Textbooks It Printed with Grant Funds and Improperly Charged the WTP Grant for Costs of Retail Textbooks**

CCE did not distribute for free the number of textbooks that it printed with funds from the WTP grant. CCE also improperly charged printing costs for textbooks that it sold to school districts to the WTP grants.

### **CCE Did Not Distribute the Number of Free Textbooks It Printed with Grant Funds**

In the budget submitted as part of its Proposal for WTP grant Q929A070001, CCE specified the number of free textbooks that would be distributed to school districts from May 1, 2007, through April 30, 2008. The CCE officials explained that CCE distributes the *We the People Citizen and the Constitution* (*Citizen and the Constitution*) textbooks (elementary, middle, and high school versions) and *We the People Project Citizen* (*Project Citizen*) textbooks (middle and high school versions) to school districts located in the congressional districts, Washington, D.C., and the U.S. territories. Our review of CCE records found that CCE distributed fewer free textbooks than specified in the Proposal for the project period. However, CCE submitted a revision to its budget in September 2008 indicating it would not use any more of the funds to print *Citizen and the Constitution* and *Project Citizen* textbooks. After reviewing CCE's records, we could not determine the number of high school and elementary school versions of the *Citizen and the Constitution* textbooks that CCE should have distributed for free. For the middle school version of the *Citizen and the Constitution* textbooks, we determined that CCE distributed 15,030 more textbooks than the budget proposed. CCE distributed fewer free *Project Citizen* textbooks than the number of textbooks we determined it should have distributed during the project period based on the number of textbooks printed prior to its budget revision.

EDGAR 34 C.F.R. § 74.25(a) and (b) state that “[t]he budget plan is the financial expression of the project or program as approved during the award process” and that grant recipients are “required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section.” After we issued the draft audit report, we inquired with the Department and found that CCE submitted a revised budget on September 5, 2008. The budget revision was approved by the Department. As a result, CCE was not bound by the quantities in the budget but would be required to distribute all textbooks printed for the WTP grant prior to September 5, 2008.

We could not determine the appropriate number of *Citizen and the Constitution* textbooks to be distributed for the high school version because CCE did not use funds from the appropriate grant (WTP grant Q929A070001) to print the high school version. Instead, CCE used \$129,348 of funds from an expired grant to cover the printing costs. CCE's budget revision should have maintained adequate funding for printing the high school version rather than using expired funds for this purpose. Prior to CCE's budget revision, its budget proposal called for the distribution of 99,000 high school textbooks. CCE reported to us that it distributed 80,160 high school

textbooks for free, 18,840 less than the proposed quantity.<sup>7</sup> The Department should determine whether CCE should print and distribute additional *Citizen and the Constitution* textbooks to high schools.

For the elementary school version, our sample did not include the invoices to determine the number of *Citizen and the Constitution* textbooks that were printed prior to September 5, 2008. The budget proposal showed that CCE based its printing costs on 132,000 textbooks for the elementary school version and CCE reported to us that it distributed 115,650 textbooks.

For the *Project Citizen* textbook, the printing invoices prior to September 5, 2008 showed that 77,550 and 121,800 textbooks were printed for the high school and middle school versions, respectively. CCE's budget proposal showed printing costs for this textbook as follows—66,000 of the high school version and 132,000 of the middle school version. Table 4 shows that CCE had not distributed over 53,160, *Project Citizen* textbooks that should have been distributed within the performance period, after considering the number of textbooks printed according to invoices prior to the September budget revision.

<b>Table 4. Free Textbook Distribution</b> <b><i>Project Citizen</i> Textbooks</b> <b>May 1, 2007, through April 30, 2008</b>			
<b>Textbooks</b>	<b>No. of Books To Be Distributed Per Invoice</b>	<b>No. of Books Distributed Per CCE Records</b>	<b>Difference</b>
<b><i>Project Citizen</i> Textbooks</b>			
High School Version	77,550	51,180	26,370
Middle School Version	121,800	95,010	26,790
<b>Total</b>	<b>199,350</b>	<b>146,190</b>	<b>53,160</b>

CCE's Program Directors, who oversee the distribution of free textbooks, explained the process used by CCE to select the school districts that receive free textbooks. Initially, CCE allocates 25 sets (each set contains 30 textbooks) of the *Citizen and the Constitution* textbooks and 10 sets of the *Project Citizen* textbooks to each congressional district. CCE works with each congressional district's coordinator to prepare a list of the school districts requesting free textbooks and the number of free textbooks requested by each district. When demand is less than a congressional district's allotment, CCE shifts the excess allotment to a congressional district whose demand is greater than its allotment of free textbooks. School districts that request textbooks beyond their allocation, or were not allocated textbooks, may purchase textbooks from CCE.

CCE's Executive Director explained that CCE uses its own goal to monitor the number of free textbooks distributed to school districts. CCE's goal is to distribute 25 sets of the *Citizen and the Constitution* textbooks and 10 sets of the *Project Citizen* textbooks in each of the 435 congressional districts plus an additional 5 congressional districts for Washington, D.C., and U.S. territories. Based on CCE's numbers for congressional districts, CCE would need to

<sup>7</sup> Our review of CCE's records did not include steps to confirm the number of free *Citizen and the Constitution* and *Project Citizen* textbooks it distributed to school districts from May 1, 2007, through April 30, 2008. Also, our review did not include teacher editions for the above textbooks.

distribute a total of 330,000 of the *Citizen and the Constitution* textbooks (25 sets x 30 textbooks x 440 congressional districts) and 132,000 of the *Project Citizen* textbooks (10 sets x 30 textbooks x 440 congressional districts). CCE's narrative to the proposal states that the 435 congressional districts will receive 25 sets of 30 *Citizen and the Constitution* textbooks and 10 sets of 30 *Project Citizen* textbooks. CCE met its own goal but it distributed 53,160 fewer *Project Citizen* textbooks than the amount of books printed prior to September 5, 2008.

### **Printing Costs for Retail Textbooks Were Charged to WTP Grants**

CCE charged all textbook printing costs to the WTP grants, even though some textbooks were printed for sale to school districts. OMB Circular A-122, Attachment A, paragraph A.4.a, which defines allocable costs, states:

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received....

The CFO informed us that CCE charged all costs for printing textbooks to the WTP grants regardless of whether the textbooks would be distributed for free under the grants or sold for revenue. As textbooks are sold, CCE reimburses the WTP grants for the related printing costs and charges its printing account for the same amount. We did not review documentation to substantiate that credits applied to the printing cost accounts for the WTP grants were for textbook sales because credits may apply to costs incurred in the prior period.<sup>8</sup> Printing costs are initially charged to the WTP grants because CCE believes that although the textbooks are sold, the books promote the grant.

We reviewed documentation for eight transactions, totaling \$1,058,332, which were charged to the WTP grants for printing textbooks. One transaction was for \$33,958 for printing the *Citizen and the Constitution* middle school hardcover textbooks that were exclusively for sale. The remaining seven transactions were for printing costs of \$1,024,374 for printing the WTP textbooks for both CCE's distribution of free textbooks and its sale of textbooks.

**Charges for Textbooks Exclusively for Sale.** During our audit period, CCE improperly charged \$42,462 to the WTP grant Q304D080001 and \$72,702 to the WTP grant Q929A070001 for the printing costs of hardcover textbooks for the WTP grants.<sup>9</sup> CCE staff charged with distributing the *Citizen and the Constitution* textbooks informed us that hardcover textbooks were sold to school districts and were not part of the grant's free textbook distribution.

---

<sup>8</sup> For our audit period, there were credits posted prior to any debits for printing costs charged to the WTP grants.

<sup>9</sup> The printing charges were calculated by totaling only debits in the 5318, 5319, and 5320 accounts. We did not apply credits to the printing costs because credits may apply to costs incurred in the prior period.

**Portions of the Textbook Costs Were Allocable to Revenue Producing Activities.** Because CCE did not separate the printing costs for textbooks that were offered for sale from the printing costs for textbooks that were distributed for free, we were unable to determine which printing costs should be charged to the WTP grants. We could not identify the credits for textbook sales that should be applied against the reviewed transactions. Table 5 lists the printing costs of the textbooks.

<b>Table 5. Unsupported Printing Costs Charged to the WTP Grants</b>		
<b>CCE Subaccount</b>	<b>Grant Award</b>	<b>Printing Costs (a)</b>
CC04-5	Q929A040001	\$16,797
CC05-6	Q929A050001	\$447,961
CC06-7	Q929A060001	\$167,072
CC07-8	Q929A070001	\$831,561
CC08-9	Q304D080001	\$461,408
<b>Total</b>		<b>\$1,924,799</b>
<i>Less: Costs Questioned in Finding No. 1 (b)</i>		\$459,640
<b>Total Unsupported Costs</b>		<b>\$1,465,159</b>
<p>(a) Amounts do not include printing costs of \$115,164 improperly charged to the WTP grants for hardcover textbooks that are for sale (\$42,462 to the WTP grant Q304D080001 plus \$72,702 to the WTP grant Q929A070001).</p> <p>(b) \$11,679 of the \$16,797 amount and the entire \$447,961 amount were previously identified in Finding No. 1 as costs expended after the liquidation period and included in the amount to be returned in Recommendation 1.1.</p>		

Because CCE charges all printing costs to the WTP grants, and then reimburses the grants only for the printing costs of those textbooks sold, the grants are absorbing all the risk for the costs of any unsold textbooks. In addition, the WTP grants may be charged for textbooks that are not sold until after the end of the grant period and there is no assurance that the grants are being reimbursed for all the printing costs for those textbooks.

## Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the OSDFS, require CCE to—

- 2.1 Distribute additional *Citizen and the Constitution* textbooks as determined by the Department, and distribute an additional 53,160 *Project Citizen* textbooks.
- 2.2 Implement procedures to ensure that the *Citizen and the Constitution* textbooks and *Project Citizen* textbooks are distributed in accordance with the distribution amounts stipulated in its future proposals to the Department.

- 2.3 Determine whether any textbooks or educational materials other than the *Citizen and the Constitution* textbooks and the *Project Citizen* textbooks were sold and whether CCE charged all the printing costs to the Department grants. If CCE sold other textbooks or educational materials and charged its printing costs to the grants, CCE should calculate the printing costs incurred to produce those textbooks or educational materials (other than the *Citizen and the Constitution* textbooks and the *Project Citizen* textbooks) that were sold and credit active Department grants for those costs and return those costs to grants that have since expired.
- 2.4 Calculate and provide adequate supporting documentation for the credits for textbook sales that will be applied to the questioned printing costs for hardcover textbooks totaling \$115,164 (\$42,462 + \$72,702) and unsupported printing costs of \$1,465,159 as shown in Table 5 (textbooks offered for sale and for free) from August 1, 2007, through July 31, 2008, and printing costs incurred in subsequent fiscal years. Return to the Department all printing costs for hardcover textbooks, net of credits, charged to WTP grants that have expired and adjust the printing costs for hardcover textbooks, net of credits, charged to active WTP grants. For the unsupported printing costs for textbooks that are offered for sale and for free, net of credits, provide adequate documentation for printing costs for free textbooks that were distributed or will be distributed under the WTP grants. If adequate support is not provided, CCE should return those printing costs not supported that were charged to grants that have expired and adjust the unsupported amounts that were charged to active grants.
- 2.5 Implement procedures to ensure that only printing costs for textbooks distributed under the grants are charged to the grant programs.

## CCE Comments and OIG Responses

CCE disagreed with our finding and recommendations and provided comments to each section of our finding.

### CCE Did Not Distribute the Number of Free Textbooks It Printed with Grant Funds

*CCE Comments.* CCE stated that it distributed textbooks that exceeded the number identified in the narrative of the approved grant proposal, which called for distribution of 330,000 *Citizen and the Constitution* textbooks and 132,000 *Project Citizen* textbooks during the period May 1, 2007, through April 30, 2008. CCE claims it distributed 330,840 *Citizen and the Constitution* textbooks and 146,190 *Project Citizen* textbooks, which equates to 840 *Citizen and the Constitution* textbooks and 14,190 *Project Citizen* textbooks more than the number identified in the proposal. CCE contends that neither the budget nor the budget notes specify the number of textbooks to be distributed for free.

CCE said it routinely prints a small percentage of *Citizen and the Constitution* textbooks beyond the textbooks that are to be distributed for free. The additional textbooks were provided for free to special projects that enhance the programs or were sold. CCE stated that the printing costs for books that were sold were fully reimbursed to the WTP grants at the end of each month. CCE



explained that the surplus of 51,810 *Project Citizen* textbooks remained in its inventory and was available for distribution during the next program cycle. Also, the 51,810 textbooks diminished the printing costs for the subsequent year and provided more funding for other approved costs, such as increased training for teachers. CCE stated that it has distributed 339,630 *Citizen and the Constitution* textbooks and 154,230 *Project Citizen* textbooks, or 9,630 *Citizen and the Constitution* textbooks and 22,230 *Project Citizen* textbooks more than the number identified in the grant proposal for the period May 1, 2008, through April 30, 2009.

*OIG Response.* We modified the finding to acknowledge that the explanation for free textbook distribution quantities in the report and in CCE's comments are also contained in the narrative in CCE's WTP proposal. Also, we substantially modified the report to address changes to the finding and recommendations as a result of our discovery that CCE had received approval from the Department to revise its WTP budget for grant Q929A070001 in September 2008.

The number of textbooks to be distributed for free noted in the proposal's narrative and budget conflict with each other. CCE's narrative to the proposal states that the 435 congressional districts will receive 25 sets of 30 *Citizen and the Constitution* textbooks and 10 sets of 30 *Project Citizen* textbooks. The total number of textbooks distributed for free cited in CCE's comments (330,000 *Citizen and the Constitution* and 132,000 *Project Citizen*) reconcile to the totals using the formula described by the Executive Director and documented in the report. However, in its budget related to the proposal CCE based its printing and distribution costs on higher numbers of free textbooks, 351,000 and 198,000 for the *Citizen and the Constitution* and the *Project Citizen* textbooks, respectively. The printing and distribution costs for the higher number of textbooks in the budget submitted to the Department reconciles to the WTP grant amount. Therefore, even though CCE did not state it would distribute the higher number of textbooks in the budget, CCE was approved for the printing and distribution costs based on the higher number of textbooks.

We inquired with the Department and found that CCE submitted a revised budget to the Department. EDGAR 34 C.F.R. §74.25(b) allows for budgets to be revised. The budget revision did not include any more funding for printing costs for the *Citizen and the Constitution* and *Project Citizen* textbooks for WTP grant Q929A070001. In the body of the report, we explained why we could not determine the number of high school and elementary school versions for the *Citizen and the Constitution* textbooks that CCE should have distributed for free. Given the revision to the budget, use of funds from grants with expired periods of availability, and lack documentation, the Department should determine the number of *Citizen and the Constitution* textbooks (high school and elementary school versions) that CCE should have distributed for free during the performance period. Also, we explained our methodology for determining the number of free *Project Citizen* textbooks that CCE should have distributed when taking into consideration the number of textbooks that were printed prior to the budget revision.

CCE stated that it distributed more textbooks than the number stated in its narrative for both textbooks for the grant period May 1, 2007, through April 30, 2008 (WTP grant Q929A070001) and the following grant period May 1, 2008, through April 30, 2009 (WTP grant Q304D080001). However, CCE also increased its printing cost line item in its budget by increasing the number of textbooks it planned to distribute to 402,000 and 212,000 textbooks for the *Citizen & the Constitution* and *Project Citizen*, respectively. CCE's comments note that the quantities for the

*Citizen and the Constitution* and the *Project Citizen* textbooks in its narrative remained the same for WTP grant Q304D080001.

#### Printing Costs for Retail Textbooks Were Charged to WTP Grants

*CCE Comments.* CCE disagreed with our finding that costs it charged for development, printing, and sale of textbooks violated OMB Circular A-122, Attachment A.4.a. CCE contends that the sale of textbooks furthers the basic statutory goal of reaching as many teachers and students as possible and therefore benefits the grant award. In its comments, CCE provided us a worksheet with the printing costs by account for all WTP textbooks and the costs credited to the accounts for textbook sales. Also, CCE also stated that its process for printing 10 percent more textbooks over the number of free textbooks and adjusting the subsequent year's number of textbooks for any undistributed or unsold textbooks reduces the government's risk. CCE added that we counted a \$42,463 invoice twice for our total for printing costs for hardcover textbooks.

*OIG Response.* Although the sale of textbooks may further the goal of the grant to reach as many teachers and students as possible, the ultimate beneficiary of the revenue for the sale of textbooks will be CCE. Therefore, the printing costs for textbooks that are for sale should be charged to CCE's publishing fund, not the WTP grants.

By not charging its publishing account immediately, there is no assurance that printing costs credited to the WTP grants reflect the actual printing costs incurred for the particular textbooks that were sold. In its own comments, CCE does not address which unit costs are being used to determine the number credited to the WTP grants for textbook sales.

For the worksheet showing the costs credited to WTP accounts for textbook sales, CCE did not provide documentation to substantiate that the applicable per unit printing costs were credited to the WTP grants. In the case of the hardcover textbooks, CCE should not charge any of those textbooks to the WTP grants because nearly all of these textbooks are sold. We confirmed that the printing costs for hardcover textbook were overstated by \$42,463.

The OMB requirement is intended to ensure that costs that benefit a specific grant or activity are charged to that grant or activity. CCE is charging the printing costs for textbooks in one year to the WTP grants, but by its own admission, it credits the WTP grant in the subsequent grant year for the textbooks sales. Therefore, the Federal government is assuming the risk of the textbooks until they are sold, and as explained above, the government has no assurance that the applicable per unit printing costs were credited to the WTP grants.

#### Recommendations

*CCE Comments.* CCE's response to each recommendation in Finding No. 2 of the Draft Report follows—

- 2.1 CCE did increase the free distribution of the *Citizen and the Constitution* and *Project Citizen* textbooks in response to requests from the field and will continue distributing as many free textbooks as possible in subsequent years.

- 2.2 CCE implemented procedures to distribute free textbooks in accordance with the distribution amounts stipulated in its proposal, and will continue this process.
- 2.3 CCE reported that it had charged \$2,080,621 for textbooks and related curricular material for free distribution and sales to the Department for the audit period. CCE also reported that it reimbursed \$172,151 to the Department grants for printing costs for materials that were sold and listed its products that are for sale.
- 2.4 CCE has provided the requested documentation in its comments and Attachment I of its comments and will provide additional documentation upon request from the Department.
- 2.5 CCE contests our finding that only textbooks to be distributed for free can be charged to the grants but will implement any resolution determined by the Department.

*OIG Response.* We have revised our recommendations where appropriate based on CCE's comments, but have not made the substantive changes requested in CCE's comments.

- 2.1 The recommendation was revised substantially based on a budget revision that was approved by the Department.
- 2.2 The recommendation was not revised because even with the budget revision CCE did not distribute the minimum number of *Project Citizen* textbooks.
- 2.3 The recommendation was not revised because CCE only identified the other educational materials sold. CCE did not provide documentation to substantiate the amounts for developing or printing the material that was charged to the Department grants.
- 2.4 The recommendation was revised to reduce the printing costs for hardcover textbooks to \$115,164 based on support showing CCE credited the account for \$42,463. Other than reducing the amount for printing costs for hardcover textbooks, CCE did not provide us support for credits for textbook sales.
- 2.5 The recommendation was not revised because CCE did not support its contention that procedures to ensure that only printing costs for textbooks distributed under the Department grants are charged to the grant were not warranted.

### **FINDING NO. 3 – CCE Used Predetermined Percentages for Personnel Costs Charged to the WTP and Cooperative Program Grants**

CCE provides each employee a monthly timesheet with predetermined percentages of time that the employee should be charging to each grant and other activities (e.g., publishing, general administrative, and/or unrestricted). When CCE employees prepared monthly timesheets, they recorded their daily hours worked on each grant or activity according to predetermined percentages provided by CCE management. As a result, we were unable to determine whether the \$3,209,373 charged to the Department grants for personnel costs were reasonable and allocable to the grants.

OMB Circular A-122, Attachment B, paragraph 8.m describes the support required for personnel costs charged to Federal grants. The subparagraph (1) states that “[t]he distribution of salaries and wages to awards must be supported by personnel activity reports as prescribed in subparagraph (2). . . .” Subparagraph (2) states that “[r]eports reflecting the distribution of activity of each employee must be maintained for all staff members (professional and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. . . .” and that the reports maintained by non-profit organizations must meet the following standards:

- (a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
- (b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- (c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
- (d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

The timesheets met the requirements for paragraphs (b), (c), and (d), but did not meet the requirement under (a). The timesheets did not reflect the after-the-fact determinations of the actual activities of the employees. The CFO informed us that CCE does not have written procedures for employees to follow when completing the monthly timesheets. He explained that it is the employee’s responsibility to determine a method for tracking the amount of time worked on each grant during the month. At the exit conference, CCE provided us written comments to this finding informing us that the CFO was mistaken and CCE’s policy, procedures, and personnel manuals were presented to us during our fieldwork. The Executive Director informed us that CCE was still reviewing its policy and procedures to verify that it covered the preparation of monthly timesheets. We reviewed CCE’s policy, procedures, and personnel manuals and found that they did not contain written procedures for employees to follow to complete their monthly timesheets.

We interviewed 15 of the 71 employees who were listed on CCE’s Salary Distribution Sheet for the month of April 2008 and charged their time to more than one grant, including a Department grant (split-funded employees). Twelve of the 15 employees interviewed stated that they estimated their time spent on each grant/activity for each day of the month so the time would conform to the predetermined percentages on their monthly timesheets. The personnel costs for one of the three remaining employees were split between general and administrative (G&A) and the WTP grant. The employee stated that he conducts all of his G&A activities at the beginning of the month and his timesheets showed that all his time was charged to G&A for the first few days during the month up to the predetermined percentage for G&A and the rest of the month was charged to WTP. We believe it is highly unlikely that the employee can consistently

perform G&A activities during the first few days of the month and not during the rest of the month. The remaining two employees stated that they charged their actual hours worked to the grants. One of the two employees told us that he charged his time to the grants based on actual hours worked, but he had only been split-funded for one month; however, we noted that his timesheet reflected a predetermined allocation. The other employee said that she used a calendar to keep track of the actual time worked on each grant on a daily basis, but added that she occasionally rounded up or down to meet the predetermined percentage allocation. CCE's attorney informed us that on one occasion the employee recorded her actual time worked on each grant or activity on the monthly timesheet, but her time was subsequently changed by another CCE employee, after the timesheet was submitted, to reflect the predetermined percentage allocation.

As discussed in the Objectives, Scope, and Methodology section of the report, under Scope Limitation, we curtailed our plan to conduct interviews of additional employees because of our concerns regarding the presence of the attorney and the e-mail that was distributed to employees may have influenced employees' responses to our interview questions to conform to the procedures detailed in the e-mail.

Based on the interviews with CCE management and employees and CCE's lack of adequate controls over activity reporting, we were unable to determine whether the \$3,209,373 charged to the grants for salaries (100 percent and split-funded employees) was properly allocated to the grants. We have no assurance that employees charging their salaries entirely to one grant were actually working 100 percent of their time on the grant. Table 6 below shows the personnel costs charged to the grants for employees whose salaries were charged entirely to the specified grant and for split-funded employees.

<b>Table 6. Total Personnel Costs Charged to Grants August 1, 2007, through July 31, 2008</b>				
<b>Grant Program</b>	<b>Grant Award No.</b>	<b>Salary Costs for Split-Funded Employees</b>	<b>Salary Costs for 100 Percent Funded Employees</b>	<b>Total Salary Costs</b>
WTP Grant	Q929A060001	\$26,625	\$5,837	\$32,462
WTP Grant	Q929A070001	\$1,056,869	\$837,196	\$1,894,065(a)
WTP Grant	Q304D080001	\$369,116	\$250,252	\$619,368(b)
WTP -- Democracy Grant	Q304K080001	\$49,153	---	\$49,153
<b>Totals -- WTP Grants</b>		<b>\$1,501,763</b>	<b>\$1,093,285</b>	<b>\$2,595,048</b>
Cooperative Program Grant	Q304B070001	\$231,879	\$87,541	\$319,420(c)
Cooperative Program Grant	Q304B080001	\$181,196	\$39,829	\$221,025
Cooperative Program Grant	R304A020008	\$32,938	\$40,942	\$73,880
<b>Totals -- Cooperative Program Grants</b>		<b>\$446,013</b>	<b>\$168,312</b>	<b>\$614,325</b>
<b>Grand Totals</b>		<b>\$1,947,776</b>	<b>\$1,261,597</b>	<b>\$3,209,373</b>
(a) Amount was reduced by \$10,847 for unallowable settlement costs discussed in Finding No. 4. (b) Amount was reduced by \$16,271 for unallowable settlement costs discussed in Finding No. 4. (c) Amount was reduced by \$2,604 for unallowable settlement costs discussed in Finding No. 4.				

## Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the OSDFS, require CCE to—

- 3.1 Provide adequate documentation supporting the allocation percentages used to charge personnel costs to the Department grants. If adequate documentation is not provided, CCE should return amounts charged to the grants that have since expired or adjust its grants that have active performance periods, whichever is appropriate, for personnel costs, totaling \$3,209,373, plus related fringe benefit costs and other costs allocated to the grants based on personnel costs.
- 3.2 Implement policies and procedures to ensure that employees prepare their personnel activity reports in accordance with OMB Circular A-122.

## CCE Comments and OIG Responses

CCE disagreed with our finding and recommendations and provided comments to each section of our finding.

*CCE Comments.* CCE believes that the after-the-fact employee timesheets were essentially accurate and complied with its mandated process and there is no basis for the OIG to call into question the veracity of CCE staff. CCE claimed that the preprinted percentages on the timesheet were not “estimates determined before the services are performed”, rather they represent assigned time where management expected employees to devote their time. The policy in effect also required employees assigned to multiple grants to notify the CFO when hours varied from the assigned percentage. The CFO would then change the assigned percentage on the timesheet to reflect the employee’s new reported allocation. In its comments, CCE reported that about 40 percent of the monthly timesheets for employees who worked on multiple grants reported variations in their time allocations during the audit period. CCE provided its analysis including examples and monthly salary distributions. CCE stated that staff assigned to a single grant, who worked 100% of their time under the grant, filled out their timesheet accordingly.

CCE does not believe its procedures violated OMB Circular A-122, B, paragraph 8.m.(2)(a). However, in its comments CCE stated that it has established new and more rigorous procedures for completing monthly timesheets. CCE claims that it had written procedures for completing monthly timesheets for time and effort reporting and provided excerpts from its Financial and Administrative Policies Manual to us in the comments to the draft audit report. CCE stated that its staff has been instructed in the new policy and the Director of Administration has been charged with oversight responsibility to ensure compliance with this new policy, including reviewing all employees’ timesheets before they are sent to the Fiscal Office.

*OIG Response.* As discussed in the report, 12 of the 15 employees interviewed stated that they estimated their time spent on each grant/activity for each day of the month so the time would conform to the predetermined percentages (or assigned percentages for the time charged to grants) on their monthly timesheets. Whether CCE may or may not have intended for employees to use the assigned percentages of employee’s time as a guide to where management expected their time to be devoted, the vast majority of employees interviewed used it as predetermined percentages or budget estimates ( i.e., estimates determined before the services are performed). Although CCE claims that it has a 40 percent revision rate to timesheets where employees’ reported variations from the assigned time and cites examples, there is no assurance that such revisions are a reasonable estimate of time worked on the grant. Only one employee that we interviewed reported to the CFO variations to her assigned time so the revised percentages of time to be charged to each grant could be made to her timesheet.

During the audit, CCE’s attorney provided us the 2006 Draft Employee Handbook but did not provide us the other documentation for the procedures for timesheet preparation that CCE cited in its comments. The handbook states that employees must accurately record their hours on timesheets but does not explain how to prepare and distribute their time to the different grants and activities. CCE’s narrative of procedures for timesheet preparation described in its comments is similar to the procedures described to us during the audit. However, those procedures for timesheet preparation are not in the Financial and Administrative Policies and Procedures Manual. Other than the CFO’s email, the procedures for timesheet preparation that were explained to us during the audit and described in the comments had not been formalized. Therefore, there is no assurance that all employees were aware of the procedures and whether CCE explained how staff should determine a reasonable estimate of time worked on the grants.

We commend CCE for revising the relevant policies and procedures in response to our concerns. The revised procedures for timesheet preparation appear to address time and effort reporting for Federal grants, especially employees that work on multiple grants and activities.

### Scope Limitation

*CCE Comments.* CCE claimed that its Board of Directors decided to have counsel present, recognizing that many of the staff who might be interviewed were young and relatively inexperienced and might be intimidated by private interviews with three Federal auditors. CCE claimed that we disapproved that CCE exercised its right to have a witness present during the employee interviews and the draft audit report mischaracterizes CCE's purpose in having a witness present at the interviews. CCE stated that the OIG auditors viewed this as an attempt by CCE to intimidate employees and prevent them from speaking freely.

CCE explained that the email from the CFO was prompted by his concern that CCE employees would be intimidated by us, so the CFO sent it as a reminder to staff on CCE's time and effort reporting procedures. CCE stated that our draft audit report acknowledged we curtailed CCE's opportunity to provide additional information justifying its personnel costs.

CCE claimed that we omitted language from a prior draft report when we asked "whether they received any kind of communication regarding the preparation of monthly timesheets from management... some employees responded that the Executive Director had told them to tell the truth and most employees responded that no communication was distributed to them." CCE also stated that its attorney who was present at the interviews noted that in every instance in which we asked CCE employees if they had been coached, they responded "No" or that they had been told to tell the truth.

*OIG Response:* We advised CCE officials that our preference was to interview employees without the presence of a third party. We also advised them that the presence of an attorney may create a condition in which the employee being interviewed may be intimidated and thus may not speak freely. *Government Auditing Standards* (GAS), paragraph 7.60 d. states that "testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated."

Furthermore the CFO e-mail and our evaluation of the interview responses, led us to our decision to discontinue further employee interviews on time and effort reporting. CCE acknowledges that its officials had concerns that the CFO's e-mail might be perceived as an attempt to coach employees. We explained the facts regarding the scope limitation in the audit report. The comment process afforded CCE an opportunity to present its explanation for having a witness present at the employee interviews and to give its account of the events described in the *Scope Limitation* section of the audit report. However, CCE's comment that the draft audit report acknowledged we curtailed CCE's opportunity to provide additional information is inaccurate. Rather, the draft audit report explained our reasons for curtailing additional interviews with employees.

CCE is also mistaken in its assertion that we omitted from a prior draft content regarding the Executive Director's instruction telling employees to be truthful. The document CCE is referring to was the preliminary finding point sheets that we provided to CCE for discussion purposes for



the exit conference. While 4 of the 15 employees informed us that the Executive Director told them to tell the truth, this information was not relevant since we were reporting that none of the interviewed employees mentioned the CFO e-mail.

CCE is again mistaken in claiming that in every instance in which we asked CCE employees if they had been coached, they responded “No” or that they had been told to tell the truth. During our interviews we never asked employees if they were coached by management on how to answer our questions. We asked the following neutral questions “Have you received any communication of any kind from management, the Accounting Department, or others since May 19<sup>th</sup> (the first day that IG auditors arrived at CCE’s Calabasas office) regarding the preparation of monthly timesheets? If so, what form of communication was received and when? May we have a copy?” None of the interviewed employees acknowledged receiving the e-mail when asked the above question.

### Recommendations

*CCE Comments.* CCE’s response to each recommendation in Finding No. 3 of the Draft Report follows—

- 3.1 CCE believes it has provided adequate documentation for staff salaries.
- 3.2 CCE has implemented stringent new policies and procedures for personal activity reports.

*OIG Response.* We did not revise our recommendations based on CCE’s comments.

- 3.1 The recommendation was not revised because CCE did not provide documentation supporting the allocation percentages used to charge personnel costs to Department grants.
- 3.2 The recommendation was not revised. During audit resolution, the Department will determine whether the revised procedures for preparing timesheets are adequate and will verify that they were implemented

#### **FINDING NO. 4 – CCE Charged Costs to the WTP and Cooperative Program Grants That Were Not Reasonable, Necessary, or Allocable to the Programs**

CCE improperly charged \$27,118 to the WTP grants and \$2,604 to the Cooperative Program grant to settle potential employee lawsuits. CCE also improperly charged \$4,443 to the Cooperative Program grants and \$2,025 to the WTP grants for employee travel and business meals that were not necessary and allocable to the grants.

Another factor affecting the allowability of costs that is listed in OMB Circular A-122, Attachment A, paragraph A.2.a is that costs must be reasonable.

Paragraph A.3, which defines reasonable costs, states:

In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

#### **CCE Charged Employee Settlement Costs as Severance Pay**

CCE charged salary costs, totaling \$29,722 (\$27,118 + \$2,604), plus related fringe benefits to the grants that it recognized as severance pay to former employees. The charges were not severance pay but settlement costs that are unallowable costs to the Department grants. CCE's CFO informed us that the severance pay was for settlements with former employees to avoid lawsuits alleging some type of harassment or discrimination. CCE's CFO officials stated that they could not provide us with specific information because of the confidentiality of the settlement agreements.

OMB Circular A-122, Attachment B, paragraph 8.k(1) *Severance pay*, describes factors for costs to be allowable.

- (1) Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by
  - (a) law,
  - (b) employer-employee agreement,
  - (c) established policy that constitutes, in effect, an implied agreement on the organization's part, or
  - (d) circumstances of the particular employment.

CCE's CFO informed us that CCE does not have a written severance policy, but he explained CCE's past practice as follows. CCE's Executive Committee, with its lawyer, discussed the terms of the settlement agreement. The settlement payments were based on the employee's monthly salary multiplied by the number of months that the committee offered and the employee

accepted. When the employee terminated employment, CCE charged the employee's settlement payments to the last program(s) the employee charged time to prior to the settlement.

We reviewed the monthly timesheets that covered the period from January 2008 through April 2008 for all employees and identified two employees who received settlement pay during that period. CCE charged \$27,118 to the WTP grants for one former employee's settlement for the period March through July 2008 (\$16,271 charged to Q304D080001 and \$10,847 to Q929A070001). For those 5 months, CCE charged the WTP grants 80 percent of the employee's salary. However, the last month the employee completed a timesheet, she charged only 50 percent of her time to the WTP grants. Thus, in addition to charging unallowable settlement costs, CCE also charged a higher percentage of the employee's salary to the WTP grants.

For another former employee, CCE charged the settlement costs of \$2,604 (\$744 x 3 months plus \$372 for one month) to the Cooperative Program grant Q304B070001 when the employee had never worked on the grant. CCE charged the employee's salary to two grants for the period from January through April 2008—90 percent to the Arab Civitas Program (Arab Civitas) grant and 10 percent to the Cooperative Program grant. The timesheets for that period were annotated with "severance pay." For the prior period (August to December 2007), CCE charged the employee's time 90 percent to the Arab Civitas grant and 10 percent to the Egypt grant.<sup>10</sup> Therefore, the settlement costs charged to the Cooperative Program grant were neither allowable nor allocable to the grant.

### **CCE Charged Travel and Business Meal Costs That Were Not Reasonable or Allocable to the Grants**

CCE improperly charged \$4,443 to a Cooperative Program grant and \$2,025 to a WTP grant for costs related to travel (airfare, lodging, and use of CCE's rented apartment), business meals, and entertainment.

**Travel Costs.** CCE charged airfare costs for the Executive Director's spouse to the Cooperative Program grant. CCE did not follow its policy for limiting employees' lodging costs to the U.S. General Services Administration's (GSA) lodging rates. Also, CCE charged the grants for lodging at its rented apartment located in Washington, D.C., that exceeded its actual per night costs.

- CCE improperly charged \$3,566 to the Cooperative Program grant Q304B070001 for one international flight to India for the Executive Director's spouse. The Executive Director informed us that his spouse was not employed by CCE, but she accompanied him on trips and her costs were charged to the unrestricted accounts.<sup>11</sup> OMB Circular A-122, Attachment B, paragraph 51.a states that "[t]ravel costs are the expenses for transportation... and related items incurred by employees who are in travel status...." After we informed CCE of the improper charge, CCE adjusted the Cooperative Program grant and charged its unrestricted account for the airfare cost.

---

<sup>10</sup> The Department does not fund and/or administer the Arab Civitas and Egypt Grants (Non-Department grants).

<sup>11</sup> CCE's unrestricted account is funded by the sale of textbooks and is used to pay for CCE's discretionary activities unrelated to the grants.

- CCE's travel voucher instructions inform staff to request the government rates for lodging. OMB Circular A-122, Attachment B, paragraph 51.b. clarifies that in the absence of an acceptable written policy regarding travel costs, the rates and amounts established by GSA shall apply to travel for Federal grants.

We reviewed three credit card payments, totaling \$11,961. Of this amount, \$9,178 (\$5,597 + \$3,581) was charged to a WTP grant and \$2,783 was charged to a Cooperative Program grant for travel costs.<sup>12</sup> Based on our review, CCE improperly charged \$1,056 (\$314 + \$742) to the WTP grant Q929A070001 and \$390 to the Cooperative Program grant Q304B070001 for lodging costs that exceeded the GSA lodging rates. Enclosure 2 contains the detailed information of the improper charges to the grants.

- CCE charged the Department grants for the use of its apartment that exceeded its average nightly apartment costs. CCE paid the cost of the rent from its unrestricted account. According to the Executive Director and CFO, CCE management, staff, and members of the Board of Directors may use the apartment instead of staying in a hotel. CCE charged \$90 for a nightly stay to the grant. CCE then credited the unrestricted account, which initially was charged for the monthly apartment costs.

For our audit period, CCE's accounting records showed that it charged \$13,598 to its unrestricted account for the cost of the apartment. Thus, the actual cost was \$37.25 per night (\$13,598 divided by 365 nights). The Executive Director used the apartment for three trips, staying at the apartment for five nights each trip. CCE charged \$900 to a WTP grant for 10 nights and \$450 to a Cooperative Program grant for the other 5 nights. Applying a nightly cost of \$37.25 for the apartment, CCE had lodging costs charged to the grants that exceeded CCE's actual costs as follows: \$527 (\$900 less \$373 [10 nights x \$37.25]) to the WTP grant Q929A070001 and \$264 (\$450 less \$186 [5 nights x \$37.25]) to the Cooperative Program grant Q304B070001.<sup>13</sup>

**Business Meals and Entertainment.** CCE charged \$442 to the WTP grant Q929A070001 and \$223 to the Cooperative Program grant Q304B070001 for business meals that were not necessary or reasonable for the performance of the grants. These costs included employee meals with coworkers and business associates that occurred in the local area. Also, CCE charged \$156 for an employee's going-away luncheon (13 CCE employees x \$12) to the Cooperative Program grant. Entertainment costs for social activities including costs for meals and gratuities are unallowable under OMB Circular A-122, Attachment B, paragraph 14, *Entertainment costs*.

---

<sup>12</sup> CCE's accounting records showed payments to its credit card company. The payments were composed of numerous individual employees' credit card bills. The employees were required to provide the accounting department with their credit card bills noting which charges were allocated to the various programs. The credit card bills contained charges for lodging, airfare, meals, and incidentals. There were 66 charges for the 3 credit card transactions charged to the travel account (5501) we reviewed of which 37 charges were for allowable travel costs. Finding No. 5 under Travel Costs for 2008 Planning Strategy Meeting shows 4 charges to the WTP 5501 account for unsupported costs and 1 to the Cooperative Program Grant 5513 account. Enclosure 2 shows 9 questioned charges, and Enclosure 3 shows 16 questioned or unsupported charges to the 5501 account and 7 questioned or unsupported charges to other travel accounts.

<sup>13</sup> For two trips, CCE did not provide adequate support for the lodging costs when the Executive Director stayed at the apartment and is discussed in Finding No. 5.

CCE's proposals to the Department for either of the grants and its approved budget did not include business meals. Enclosure 3 shows detailed information regarding meal costs that were not necessary or reasonable for the performance of the grants or unsupported.<sup>14</sup>

The CFO informed us that CCE charged business meals to the grants up to the per diem amounts—\$10 for breakfast, \$12 for lunch, and \$26 for dinner. CCE provided allowance for breakfast, lunch, and dinner for employees on travel status and allowance for meals when an employee is having a meal with business associates to discuss grant-related activities. Although there were no written procedures for employees to provide support for their costs for business meals, the CFO explained that employees were required to document the names of the attendees and the purpose of charging the cost of the meals to the grants so the responsible Program Director and accounting staff can determine the allowability of the costs.

## Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the OSDfS, require CCE to—

- 4.1 Return to the Department \$29,722 for settlement costs plus related fringe benefits that CCE improperly charged to the WTP (\$10,847 + \$16,271) and Cooperative Program grants (\$2,604).
- 4.2 Review the employees' monthly timesheets for the period August 1, 2007, through December 31, 2007, and May 1, 2008, through July 31, 2008, to determine whether other settlement costs were improperly charged to the WTP or Cooperative Program grants and return the amount to the Department.
- 4.3 Implement a policy to not charge settlement costs to Department grants and publish a severance policy.
- 4.4 Implement procedures that limit lodging costs to the applicable GSA rates as detailed in its travel policy, limit CCE's lodging costs for the apartment to actual costs, and charge only meal costs that are reasonable and necessary to the grants.
- 4.5 Return to the Department \$2,902 for costs relating to travel, business meals, and entertainment that CCE improperly charged to the WTP (\$1,056 + \$527 + \$442) and Cooperative Program (\$390 + \$264 + \$223) grants.

## CCE Comments and OIG Responses

CCE disagreed with our finding and recommendations and provided comments to each section of our finding.

---

<sup>14</sup> The issues regarding unsupported business meals are addressed in Finding No. 5.

### CCE Charged Employee Settlement Costs as Severance Pay

*CCE Comments.* CCE believes that the \$29,721 we questioned constitutes costs for severance pay and is in compliance with OMB Circular A-122, Attachment B, paragraph 8.k. CCE claims that these costs reflect severance payments to terminated employees and were not settlement payments made to avoid lawsuits. During the course of negotiating the severance pay, both former employees engaged the services of attorneys. CCE stated that at no time was there a threat of potential legal action specifically conveyed to CCE. However, CCE said that when considering the terms of the severance settlement, it considered the potential costs of what would amount to a nuisance suit and this is what CCE's CFO was referring to during discussions with the auditors.

CCE stated that the payments for severance meet the literal definition for "severance pay" in OMB Circular A-122 and meet the conditions for allowability under the Circular because the payments were made pursuant to an employer-employee agreement and the circumstances of the particular employment required CCE to pay the former employees severance. CCE stated that nothing in the OMB Circulars or Federal regulations bars these payments. CCE also stated that these provisions do not exclude payments that fall within the definition of severance pay simply because they may have been made to settle potential litigation with an employee. CCE also cited two court cases where the Court ruled that, under the Federal Acquisition Regulations (FAR), a contractor's settlement costs could be charged to the government even if there was "very little likelihood of success" of a potential employee's claim.

CCE acknowledged that post-termination payments to each employee were ultimately not charged to the grants the employee had worked on. CCE explained that when grants ended and were no longer available to fund that grant's portion of the post-termination pay, CCE would charge a different grant supporting the same program.

*OIG Response.* CCE did not demonstrate that the post-termination payments made to the two former employees, charged as personnel costs to Department grants, were reasonable and necessary. CCE did not have a written policy to substantiate that it routinely provides severance pay to terminated employees. CCE also denied our request for copies of the settlement agreements for the two employees in question, citing a provision for both parties to not discuss the terms of the agreements. Without specific knowledge regarding the reason(s) for the payments, we are unable to assess their reasonableness. Also, CCE stated that the post-termination pay was required by the circumstances of the particular employment, but did not provide further explanation or any documentation to support this statement. As a result, we cannot determine the allowability of these specific costs and will rely on the Department to make a final determination during the audit resolution process.

When determining whether CCE's payments to these two employees meet the OMB definition of severance pay, we believe they should be evaluated under the provision for "abnormal severance pay" because CCE did not have any written policies for the provision of severance pay that specified a method for determining the severance amount, such as one week of pay for each year of employment. OMB Circular A-122, Attachment B, paragraph 8.k.(2)(b), pertaining to abnormal or mass severance pay, states that ... "allowability will be considered on a case-by-case basis in the event or occurrence." Regardless of the Department's determination, CCE

should not have charged the severance pay solely to the selected grants. If deemed allowable, the costs should be allocated to all of CCE's grants and activities.

The cited court cases are not applicable to CCE's situation regarding settlement costs because the FAR does not apply to grantees. The cases involved the allowability of certain settlement charges by contractors to the government under the FAR. The FAR governs the Federal government's acquisition process. The cases do not address whether settlement payments by a grantee are allowable under OMB Circular A-122.

CCE Charged Travel and Business Meal Costs That Were Not Reasonable or Allocable to the Grants

CCE disagreed with some aspects of our finding, partially concurred with our recommendations, and provided comments to each section of our finding.

*CCE Comments.* CCE agreed that the amount charged to the Cooperative Program grant for airfare for the Executive Director's spouse was inappropriate and stated that it has reimbursed the applicable grant for the expense. CCE claims that it discovered the errant charge for \$3,566 and indicated that we were incorrect when we stated in the draft report that after the OIG auditors informed CCE of the improper charge, CCE adjusted the Cooperative Program grant and charged its unrestricted account. While CCE believes some of the questioned costs related to business meals and apartment lodging are allowable, it chose not to dispute these amounts and informed us it has reimbursed the applicable grants for the amounts questioned in our draft audit report.

CCE stated that its policy is to limit hotel costs to GSA rates when feasible. However CCE also indicated there are situations when it is not possible or reasonable to use the GSA rate. In its comments, CCE identified reasons for exceeding the GSA rate such as (1) the only hotels available within a reasonable distance of places where staff must do business refuse to honor the rate, (2) attending conferences or conventions in hotels with fixed prices above the GSA rates, or (3) hotels above GSA rates are closer to places where CCE must do business, which results in reduced transportation costs. In such instances, CCE stated it used policies in Subpart D-Actual Expenses, sections 301-11.300 through 11.306 41, Code of Federal Regulations (CFR), Chapters 300 through 304 to guide its practices. CCE also stated that the payments for lodging are allowable under the C.F.R. mentioned above and the CCE policy manual, which is consistent with applicable Federal regulations. CCE stated it revised its manual regarding lodging in excess of the GSA rates to include requiring written approval from the project directors and the Director of Administration.

*OIG Response.* We commend CCE for reimbursing the appropriate Federal grants for a portion of the unallowable charges identified in our draft report. However, CCE's assertion that its staff discovered the improper charge to the Cooperative Program grant for \$3,566 related to airfare expenses is incorrect. The error was discovered by our auditors while reviewing a CCE prepared summary of airfare expenses charged to CCE's travel agency. CCE personnel were notified of the error when we inquired about the particular charge.

CCE's explanation that OMB Circular A-122 allows a non-profit organization latitude to create travel policy that does not adhere to GSA rates did not support its claim that the Circular was

applicable to its particular situation for charging lodging costs above the GSA rates. OMB Circular A-122, Attachment B, paragraph 51.b, states that “the costs of lodging ...shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the non-profit organization in its regular operations as the result of the non-profit organization’s written travel policy.” In its comments, CCE stated that it maintained written policies for deviating from GSA’s established rates at the time of our audit, as required by the Federal regulations. CCE never mentioned the policies nor did its staff provide them to us during the audit. Also, the policies that were provided as an attachment to its comments require written approval from the CFO, who did not mention such approvals during our discussions or provide them to us during the audit.

CCE did not provide its revised policy requiring written approvals by two different CCE managers when employees will incur lodging costs above the GSA rates. Also, CCE did not submit any documentation for revisions to its policy and procedures for charging only the actual costs to Federal grants when CCE staff use its apartment in Washington D.C. and determining whether business meals are reasonable, allocable, and allowable costs to the grants.

### Recommendations

*CCE Comments.* CCE’s response to each recommendation in Finding No. 4 of the Draft Report follows—

- 4.1 CCE believes these costs were severance pay and not settlement costs.
- 4.2 CCE has reviewed its monthly timesheets for the periods specified by the auditors and determined that there were no severance or settlement costs paid during those periods.
- 4.3 CCE policy is not to charge settlement costs to Department grants.
- 4.4 CCE has established clear policies and procedures regarding hotel lodging exceeding the GSA rates.
- 4.5 CCE has refunded \$1,742 to the Department grants for travel, business meals, and lodging that were questioned costs but believes that the remaining \$1,160 of questioned costs were allowable.

*OIG Response.* We revised our recommendations to reflect the need for CCE to publish a severance policy.

- 4.1 The recommendation was revised to include that CCE should be required to publish a severance policy.
- 4.2 The recommendation was not revised. The Department is responsible for determining whether CCE has identified all other settlement or severance costs charged to the WTP and Cooperative Program Grants during the resolution process.



- 4.3 The recommendation was not revised. During audit resolution the Department will determine whether CCE's policy for settlement costs is adequate and will verify that they were implemented.
- 4.4 The recommendation was not revised because CCE did not provide its revised written procedures for lodging costs in excess of applicable GSA rates and did not provide procedures for apartment lodging and business meals.
- 4.5 The recommendation was not revised because CCE did not provide support that its lodging costs in excess of the GSA rates were reasonable and necessary for the grant purpose.

**FINDING NO. 5 – CCE Did Not Properly Allocate or Provide Adequate Supporting Documentation for Other Direct Costs Charged to the WTP and Cooperative Program Grants**

CCE charged \$10,748 to a Cooperative Program grant for which a portion of the cost benefited another grant. CCE did not provide adequate documentation for \$4,307 charged to the WTP grant and Cooperative Program grants for apartment and hotel lodging, rental car, and meals. Also, CCE charged \$2,914 to the grants for airfare costs that were not supported by travel authorizations. OMB Circular A-122, Attachment A, paragraph A.2 lists the factors affecting allowability of costs, and states that costs must "be adequately documented." Because CCE did not provide adequate documentation, we were unable to determine whether the costs charged to the grants were reasonable and allocable for the performance of the grants.

**CCE Charged the Entire Cost of Contractual Services to a Cooperative Program Grant When the Activities Also Benefited Other Grants**

CCE charged \$10,748 to the Cooperative Program grant Q304B070001 for a consultant who performed services that also benefited another Federal agency's grant. CCE and the consultant entered into two agreements for the consultant to provide translation services. The first agreement commenced July 1, 2007, and continued through September 30, 2007. The second agreement started October 1, 2007, and continued through December 31, 2007.

The Scope of Work for the July and October 2007 agreements required the consultant to complete the following tasks:

- Translate CCE's International Programs and WTP brochures into Arabic.
- Translate Arab Civitas communications from Arabic to English and vice versa, as requested by CCE.
- Review Arab Civitas adaptations of CCE's materials in Arabic and English. (Only in October 2007 Agreement)
- Answer questions from CCE about previously written papers on materials, pilot programs, etc.

Invoices provided by the consultant showed that some services did not relate to the Cooperative Program grant. Rather, the invoices related to a transfer of a regional office for the Middle East Partnership Initiative (MEPI) program to the Jordanian Center for Civic Education Studies (JCCES).

CCE's Project Coordinator stated that the regional office referred to in the above invoices pertained to the consultant's previous position as a director of a regional program for a MEPI-funded Arab Civitas grant that no longer exists. The MEPI is funded by the U.S. Department of State.

CCE's Associate Director informed us that when the Arab Civitas grant was discontinued, CCE started to charge some of the Arab Civitas grant costs to the Cooperative Program grants as they have similar activities and it was natural for the costs in this contract to be charged to the Cooperative Program.

### **CCE Did Not Provide Adequate Documentation for Travel and Meal Costs**

CCE did not provide adequate documentation to demonstrate that \$2,763 charged to the WTP grants and \$4,458 charged to the Cooperative Program grants for apartment lodging, business meals, and other costs were reasonable and allocable to the grants.

**Apartment Lodging Costs.** For two of the three Executive Director's stays at the apartment that were discussed in Finding No. 4, CCE did not provide adequate documentation to support the apartment lodging costs for \$186 charged to the WTP grant Q929A070001 and the \$186 charged to the Cooperative Program grant Q304B070001 that were based on actual costs (5 nights x \$37.25 actual nightly cost). The travel authorization for one trip showed that the Executive Director was planning to perform activities allocated to its unrestricted account, WTP grant, and Cooperative Program grant. For the other trip, the authorization showed that the Executive Director was planning to perform activities allocated to the WTP grant and Cooperative Program grant. However, CCE charged the full \$450 for apartment lodging to the WTP grant for one trip and the full \$450 for apartment lodging to the Cooperative Program grants for the other trip (5 nights x \$90—amount charged by CCE).

**Meal Costs.** CCE charged \$151 to the WTP grant Q929A070001 and \$1,770 to the Cooperative Program grant Q304B070001 for the costs of meals for which it provided receipts and other documentation. However, the documentation did not contain sufficient information to determine whether the costs were reasonable and allocable to the grants. Enclosure 3 shows detailed information regarding meal costs that were not necessary or reasonable for the performance of the grants or unsupported.

**Airfare Costs.** CCE charged \$849 to a WTP grant and \$2,065 (\$1,824 + \$241) to the Cooperative Program grants for airfare costs for which it provided approved travel authorizations, but the provided documents did not contain sufficient information to determine whether the two airfare costs were allocable to the grants. CCE charged \$608 to the WTP grant Q929A070001 and \$1,824 to the Cooperative Program grant Q304B080001 for one airfare. The travel authorization for that trip did not specify the activities that the Executive Director would perform while on travel status. CCE charged \$241 to the WTP grant Q929A070001 and \$241 to

the Cooperative Program grant Q304B070001 for the other airfare. The travel authorization for this trip indicated that the Executive Director's travel costs would be charged to the grants and CCE's unrestricted account, when in fact, the costs were only charged to the grants.

**Travel Costs for the 2008 Planning Strategy Meeting.** CCE did not provide sufficient documentation to support that \$1,577 charged to the WTP grant Q929A070001 and \$437 charged to the Cooperative Program grant Q304B070001 were reasonable and allocable. Two employees from its Washington, D.C., office attended CCE's annual planning strategy meeting in Calabasas, CA. The CFO explained that each year CCE conducted a planning meeting to discuss the strategy for administering all its grants. However, one employee's travel costs of \$779 (\$694 for lodging and \$85 for parking) were charged to the WTP grant. The other employee's rental car of \$361 and half of the lodging costs of \$437 were charged to the WTP grant. The other half of the lodging costs of \$437 were charged to the Cooperative Program grant Q304B070001.

## Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the OSD/FS, require CCE to—

- 5.1 Provide adequate supporting documentation for the portion of the \$10,748 charged to its Cooperative Program grant Q304B070001 that should have been paid with the grant funds, and return to the Department those amounts that CCE is unable to support with documentation.
- 5.2 Provide adequate supporting documentation for \$1,921 for meals, \$372 for apartment lodging costs, \$2,914 for airfare, \$1,568 for lodging, and \$446 for rental car and parking that were charged to the WTP and Cooperative Program grants but did not provide supporting documentation to substantiate that the costs were allowable. If adequate documentation is not provided, CCE should return to the Department amounts charged to the grants that have since expired and adjust its grants that have active performance periods.
- 5.3 Implement procedures that allow the allocation of contractor payments to two or more funding sources.

## CCE Comments and OIG Responses

CCE disagreed with some aspects of our finding, partially concurred with our recommendations, and provided comments to each section of our finding.

### CCE Charged the Entire Cost of Contractual Services to a Cooperative Program Grant When the Activities Also Benefited Other Grants

*CCE's Comments.* CCE stated that the draft audit report reflects a misunderstanding of the contractor's work and role, along with the distinction between Department and U.S. Department

of State projects. CCE explained that the work performed by the contractor was for the benefit of the Arab Civitas Network that is funded by the Cooperative Program and was specifically related to the goals and objectives of the Cooperative Program. According to CCE, any benefits that accrued to the MEPI funded Arab Civitas program were fortuitous, incidental and not allocable to that program. The Arab Civitas network was formed in 2002 and is a group of organizations, including CCE that collaborate on civic education programs in the Middle East and North Africa. At different times, the Arab Civitas network has been funded by the Cooperative Program grant, the U.S. Department of State, and other sources. Later, the Arab Civitas program was started by the MEPI Initiative of the U.S. Department of State and supported activities that expanded some of the programs in the region initiated and supported by the Arab Civitas Network under the Cooperative Program.

CCE explained that the contractor first worked for CCE under the Cooperative Program but when CCE received funding from MEPI to expand the civic education activities in the region, the contractor became the regional coordinator of both programs. When MEPI ended its funding to the regional coordination office CCE expanded the contractor's services beyond the countries in the Arab Civitas Network to include all partners to the Cooperative Program as set forth in the agreement's Nature of Work. CCE claims that the Scope of Work in the agreements (listed under the above finding) was only a partial list of tasks to be completed by the contractor and was not meant to be comprehensive. CCE contends that the draft report is incorrect in suggesting that the consultant costs related to a regional office were solely for the benefit of the MEPI funded Arab Civitas grant because the regional office performed activities for the Cooperative Program. CCE also states that when the contractor's work for MEPI terminated with the closing of the regional office, the contractor was then hired as a consultant during the period July 2007 to December 2007 to provide services to the Cooperative Program.

*OIG Response.* CCE's explanation for the distinction between the Arab Civitas Program and Arab Civitas Network and clarification of the contractor's role did not support its contention that all contract costs should be charged to the Cooperative Program. CCE did not provide documentation substantiating that the Arab Civitas Network and Arab Civitas Program had common program purposes allowing the unsupported costs to be charged to the Cooperative Program grant. CCE only provided the above explanation. CCE's Project Coordinator stated that some of the tasks completed by the contractor benefited the MEPI-funded program. Thus, those costs should not have been charged to the Cooperative program. As we reported, some of the tasks performed by the contractor and described in the invoices pertained to the closure of the regional office and transitional activities from the regional office to the JCCES. For example, completed tasks that the contractor listed in the invoices included finalizing all financial issues pertaining to the regional office, preparing for office licenses transfer to JCCES, and preparing for financial closure of the regional office. As a result, the associated costs are allocable to the MEPI-funded program since the contractor is performing activities associated with that program.

#### CCE Did Not Provide Adequate Documentation for Travel and Meal Costs

*CCE Comments.* CCE disagreed with our finding regarding the Executive Director's travel and travel for two employees to a planning strategy meeting, but agreed that the apartment costs and some meal costs were improperly charged to the WTP and Cooperative Program. For the

apartment costs, and meal costs that it agreed were improperly charged, CCE informed us that the appropriate programs were reimbursed.

CCE provided descriptions for \$96 of meals charged to the WTP to demonstrate the allowability of the costs as follows:

- \$44 for a working dinner with the Director of the WTP and two consultants who were planning workshops at the Navajo reservation.
- \$52 for dinners for two CCE staff members on travel status visiting its Calabasas office.

Also, CCE provided descriptions for \$1,183 of meals charged to the Cooperative Program to demonstrate the allowability of the costs.

- \$442 for a dinner with 17 staff on travel status attending the International Project Citizen Showcase in Washington D.C.
- \$717 for meals at five restaurants in Massachusetts for a delegation of Chinese educators who implement CCE programs in China.
- \$24 for the CCE Executive Director and Director of International Programs lunches on travel status in Sacramento to meet with the Superintendent of Public Instruction for California to discuss the possibility of his agency participating in the Cooperative Program.

CCE did not agree with the part of our finding regarding travel for the Executive Director and the two employees attending a planning strategy meeting. CCE explained that it estimated that 70 percent of the \$2,914 in airfare for the Executive Director's trip to Russia was charged to the Cooperative Program grant and the remaining 30 percent of the amount was for the airfare to Washington D.C. and was charged to the WTP grant. CCE provided the agenda for the events in Russia and the Event Schedule for the National Finals 2008 in Washington D.C.

CCE claimed that the allocation for \$2,014 for travel costs for two employees that attended the 2008 planning strategy meeting was appropriate. One employee charged all travel costs to the WTP grant since the employee worked in CCE's domestic programs and the other employee charged half of the travel costs to the WTP and the other half to the Cooperative Program grant because the employee's time was split between CCE's domestic and international programs.

*OIG Response.* The descriptions that were provided by CCE were of a general nature and did not substantiate that the employee meal costs with coworkers and business associates were reasonable and necessary to the grants.

The descriptions for the \$44 and \$52 for meals charged to the WTP did not demonstrate the allowability of the costs. For the \$44 meal, CCE did not support why the business meal was reasonable and necessary to the WTP grant. We accepted CCE's reallocation of the \$52 meal to the WTP and Cooperative Program grants since the allocation is reasonable for this nominal amount.

CCE's descriptions for \$442, \$717, and \$24 for meal costs charged to the Cooperative Program also did not demonstrate the allowability of the costs. For the \$442, CCE did not provide the names of the 17 employees that were attending the International Project Showcase and did not substantiate that the employees were in travel status. Therefore, we could not verify that none of

the \$442 was also claimed by the 17 employees as a travel expense. The total amount charged to the program was \$936 for the meal with employees that were attending the International Project Showcase. CCE did not address the remaining \$468 that was charged to the Cooperative Program Grant. For the \$717 of meals charged to the Cooperative Program, CCE did not provide any documentation supporting the business purpose of the meals nor was the list of attendees provided. The \$24 lunch that was charged to the Cooperative Program appears to be for a day trip. If the trip's duration was less than 12 hours, CCE employees would not be authorized to receive per diem under Federal Travel Regulations Chapter 301-11.101.

In addition, CCE's allocation methods for travel costs questioned in this finding do not appear to be appropriate. CCE's estimates of the percentage of the airfare attributed to the WTP and Cooperative Program for the Executive Director's trip cannot be substantiated. The agendas for the conference in Russia and the WTP competition did not support the estimated allocation of costs charged to both programs. OMB Circular A-122, Attachment A, paragraph A.4.a(2) explains that costs benefiting both the award and other work can be distributed in a reasonable proportion to the award and other work by the benefits received.

CCE's explanation for its allocation of travel costs charged to the WTP and Cooperative Program for the two Washington D.C. employees attending the 2008 planning strategy meeting held in California did not consider CCE's other grants with domestic and international programs. CCE charged all of the travel costs to only two Department grants even though these annual planning meetings likely benefit all of CCE's programs. CCE did not provide any information to show that the planning meetings focused on the two Department grants that were charged.

### Recommendations

*CCE Comments.* CCE's response to each recommendation in Finding No. 5 of the Draft Report follows—

- 5.1 CCE believes it has adequately justified the costs for contractual services.
- 5.2 CCE believes it has adequately justified the costs for business meals and travel costs.
- 5.3 CCE has procedures that allow the allocation of contractor payments to two or more funding sources and will implement them when required.

*OIG Response.* We did not revise our recommendations based on CCE's comments.

- 5.1 The recommendation was not revised because CCE did not provide documentation to support that the costs for contractual services were for the Cooperative Program.
- 5.2 The recommendation was not revised because CCE did not provide documentation to support that the costs for business meals and travel costs were for the purpose of the grant.
- 5.3 The recommendation was not revised because CCE did not provide its procedures for allocating costs for contractual services charged to two or more funding sources.

## **FINDING NO. 6 – CCE Improperly Charged the WTP and Cooperative Program Grants for Direct Costs That Were Based on Estimates**

CCE improperly charged \$172,141 as direct costs to the WTP and Cooperative Program grants based on estimates. The CFO explained that the costs for photocopies, telecommunications, postage and shipping, and data processing were allocated to grants based on his estimates that were drawn from his past experience. OMB Circular A-122, Attachment A, paragraph B.1 defines direct costs as “[t]hose that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization.” Table 7 shows the other direct costs charged to the grants during our audit period from August 1, 2007, to July 31, 2008, based on salaries and the CFO’s estimates.

<b>Table 7. Other Direct Costs</b>			
<b>Grant Award</b>	<b>Other Direct Costs Charged to Grants Based on Salaries (a)</b>	<b>Other Direct Costs Charged to Grants Based on Estimates</b>	<b>Total Other Direct Costs Charged to Grants</b>
WTP Q929A060001	\$7,174	\$2,243	\$9,417
WTP Q929A070001	\$432,878	\$84,778	\$517,656
WTP Q304D080001	\$158,098	\$35,460	\$193,558
WTP - Democracy Program Q304K080001	\$12,122	\$2,313	\$14,435
<b>Totals – WTP Grants</b>	<b>\$610,272</b>	<b>\$124,794</b>	<b>\$735,066</b>
Cooperative Program Q304B70001	\$78,997	\$20,092	\$99,089
Cooperative Program Q304B80001	\$55,869	\$20,297	\$76,166
Cooperative Program LA R304A020008	\$17,034	\$6,958	\$23,992
<b>Totals – Cooperative Program Grants</b>	<b>\$151,900</b>	<b>\$47,347</b>	<b>\$199,247</b>
<b>Grand Totals</b>	<b>\$762,172</b>	<b>\$172,141</b>	<b>\$934,313</b>
(a) These other direct costs consisted of costs such as rent and utilities that were charged to the grants based on the percentage of salaries allocated to the grants.			

Given that CCE's other direct costs that were based on estimates cannot be directly attributed to a final cost objective or grant, CCE should have treated the expenditures as indirect costs and included them in CCE's 2008 Indirect Cost Proposal used to determine its indirect cost rate. OMB Circular A-122, Attachment A, paragraph C.1 defines indirect costs as "[t]hose that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective."

## Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for the OSDFS, require CCE to—

- 6.1 Cease using its current method of allocating other direct costs to the grants based on estimates and implement procedures to account for the other direct costs based on actual expenditures or account for them as indirect costs.
- 6.2 Return to the Department \$172,141 of other direct costs based on estimates charged to the WTP and Cooperative Program grants that have since expired and adjust active grants for the remaining amounts and include the questioned costs in the final indirect cost rate proposal submitted to the Department's Indirect Cost Group which is based on actual costs.

## CCE Comments and OIG Responses

CCE disagreed with our finding and recommendations and provided comments to our finding.

*CCE comments.* CCE stated that its methodology for allocating the other direct costs to the Department programs represents a reasonable and cost-effective method that properly allocates the costs to Department grants. CCE contends that whether the other direct costs were direct or indirect does not implicate their allowability. CCE believes it is unreasonable and unfair to use this technicality as a means to seek reimbursement for any of these legitimate costs. CCE also indicated that the draft audit report's recommendation that it return these funds to the Department is arguably impermissible under prevailing case law. Also, CCE stated that these costs have routinely been included in its grant budgets and the Department has never objected to these proposed costs before. CCE believes this supports its argument that the draft report recommendation for a retroactive indirect cost rate would violate the terms of the negotiated indirect rate.

*OIG Response.* We do not agree with CCE's contention that the allocation of the other direct costs based on estimates was a proper method and that the costs should be classified as direct costs. OMB Circular A-122, Attachment A, paragraph A.4 explains that a cost is allocable to a particular cost objective in accordance with the relative benefits received and further describes an allocable cost as one that benefits both the award and other work and that can be distributed in a reasonable proportion to the award and other work based on the benefits received. Cost allocation based on the estimates drawn on the CFO's past experience is not a reasonable method because these amounts cannot be substantiated. OMB Circular A-122 defines direct costs as those that can be identified specifically with a particular final cost objective of an



organization. If CCE is estimating the amount of the other direct costs that should be charged to each of its grants, it is reasonable to conclude that the costs cannot be directly attributed to a final cost objective. In addition, Attachment A, paragraph B.4 of the Circular states “[a]ny direct cost of a minor amount may be treated as an indirect cost for reasons of practicality....”

The court case CCE cited is not applicable to our finding. The case pertained to the amount of indirect costs that the contractor’s fixed price contracts would need to absorb if the contractor was required to retroactively change the method used to determine its indirect cost rate for its cost reimbursement contracts. The Court held that under the peculiar facts of the case, the government was required to give the contractor adequate notice of a change in the method for calculating the indirect cost rate so the contractor thereafter could negotiate its contracts accordingly. Our audit report provides CCE adequate notice that the other direct costs of \$172,141 cannot be allocated to grants based on estimates and informs CCE that it include minor amounts of direct costs in its final indirect cost rate.

Furthermore, the Department has issued CCE a provisional indirect cost rate of 14.7 percent but has not issued a final rate to CCE. OMB Circular A-122, Attachment A, paragraph E.1 defines a provisional rate as a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period. Final rate means an indirect cost rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment.

*CCE Comments.* CCE’s response to each recommendation in Finding No. 6 of the Draft Report follows—

- 6.1 CCE will prospectively follow the procedures required by the Department.
- 6.2 CCE disagrees with our recommendation that its other direct costs be returned to the Federal government. CCE believes that its procedures for allocating these costs was reasonable, practical, cost-effective, and identified costs properly allocable to the grants.

*OIG Response.* We did not revise our recommendations based on CCE’s comments.

- 6.1 The recommendation was not revised because CCE did not provide documentation that its method for allocating its other direct costs were attributed to the Department grants that were charged.
- 6.2 The recommendation was not revised as explained in our response in Recommendation 6.1.

## **FINDING NO. 7 – CCE Did Not Properly Execute and Monitor Its Contracts for the Cooperative Program**

CCE did not execute its contracts timely for the Cooperative Program or ensure that contractors complied with reporting requirements. As a result, CCE made Federal funds vulnerable to misuse by reimbursing contractors for costs incurred before contracts were executed and by not ensuring that contractors adhered to contractual reporting requirements. Also, EDGAR 34 C.F.R. § 74.47 requires that a system for contract administration must be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract.

### **CCE Did Not Execute Contracts in a Timely Manner**

CCE did not sign its contractual agreements until well after the beginning of the contract performance period. For our sample of eight contracts that were selected from the nine transactions for contract costs reviewed for the Cooperative Program grants, CCE's Director for International Programs signed the contracts an average of 384 days after the beginning of the contract performance period, and, on average, 50 days after the contractor signed the contract. The CFO told us that contracts were signed only after 1) the reporting requirements and proposed activities from the previous year were completed; and 2) a complete proposal, including a narrative and a budget, for the new award year was submitted and approved by CCE. The CFO further informed us that the contractors in our sample were behind schedule and did not meet the deadlines for fulfilling these requirements. However, CCE allowed programmatic activities for the next award year to begin without a signed contract in place.

For cost reimbursements, the contractors submitted financial activity reports to CCE. Based on the financial activity reports, work began on five of the eight contracts even though such contracts remained unsigned by CCE and the contractor until well into the performance period. For example, one contract with Bowling Green State University for \$100,000 was not signed by CCE and the contractor until all work had been completed. For another contract, CCE paid Bowling Green State University a \$25,000 advance from the \$215,000 before the contract was signed by CCE and the contractor. For the remaining two of the eight contracts, we could not determine the start dates because the contractor submitted only one financial report for each contract after all work had been completed. Although the financial reports provided cost breakdowns of the work performed during the life of the contracts, the reports did not identify the date that work commenced on the contracts.

### **CCE Did Not Ensure That Contractors Complied with Reporting Requirements**

CCE's contract monitoring process did not ensure that contractors complied with periodic reporting requirements that were specified in each of the contracts. CCE's contract terms generally required that contractors complete and remit to CCE periodic programmatic and financial reports. In seven of the eight contracts we reviewed, the contractors submitted the quarterly or semiannual financial and programmatic reports well after the specified due date. For example, one quarterly report was submitted 431 days after the reporting due date. Periodic programmatic and financial reports for three contracts were not submitted to CCE even though such reporting was stipulated as a requirement in the executed contracts. For these three

contracts, only a final report was submitted.<sup>15</sup> Two or more reports were submitted together in four of the eight contracts reviewed, two of which involved the submission of all required reports after the project was completed. Reports were submitted in a timely manner for only one contract. We also noted that CCE paid a contractor \$239,252 for work performed prior to receiving the corresponding Programmatic Report from that contractor. Non-adherence to contract requirements diminishes the level of assurance that the Department receives the products and services intended and puts Department funds at risk.

Based on our review of programmatic reports, we noted that the activities carried out appeared to be in line with contract objectives. However, we did note that CCE extended seven of the eight one-year contracts in order to provide contractors additional time ranging from 92 to 243 days to complete their work. The remaining contract was completed on time. The following table shows the beginning dates of the performance period, dates the contracts were signed, contracts granted an extension, and the names of the contractors for the eight contracts reviewed.

<b>Table 8. Contract Execution Delays</b>							
<b>Contract Amount &amp; Grant No.</b>	<b>Beginning of Performance Period</b>	<b>CCE Sign Date</b>	<b>Days Late (a)</b>	<b>Contractor Sign Date</b>	<b>Lag, in days (b)</b>	<b>Extension</b>	<b>Contractor</b>
\$460,000 Q304B060001	3/1/2006	9/25/2007	573	9/21/2007	4	Yes	Cooperation of Ireland
\$63,665 Q304B040001	10/1/2004	12/21/2005	446	10/31/2005	51	Yes	Bowling Green State University
\$106,638 Q304B050001	3/1/2006	12/22/2006	296	8/10/2006	134	Yes	American Federation of Teachers
\$200,000 Q304B050001	3/1/2006	3/2/2007	366	10/31/2006	122	Yes	Bowling Green State University
\$215,000 Q304B040001	3/1/2004	8/26/2004	178	8/6/2004	20	Yes	Bowling Green State University
\$100,000 Q304A030004	10/1/2004	8/24/2005	327	8/15/2005	9	Yes	Bowling Green State University
\$100,000 Q304A030004	10/1/2005	3/6/2007	521	1/29/2007	36	No	Bowling Green State University
\$32,209 Q304A030004	10/1/2005	10/4/2006	368	9/13/2006	21	Yes	American Federation of Teachers
		<b>Average in days:</b>	<b>384</b>	<b>Average in days:</b>	<b>50</b>		
(a) <b>Days Late</b> denotes the number of days between the effective date of the contract and the beginning of the performance period. All the listed contracts became effective after the performance period began.							
(b) <b>Lag, in days</b> denotes the number of days between the contractor sign date and CCE sign date.							

<sup>15</sup> CCE waived the requirement for one of the contractors to submit periodic reports in order to “expedite the catch-up work” that the contractor needed to do in order to complete the work.

## Recommendations

We recommend that the Chief Financial Officer, in collaboration with the Assistant Deputy Secretary for OSDfS, require CCE to implement policies and procedures to ensure that—

- 7.1 All contracts are properly executed before contractors are allowed to begin work and before grant funds are disbursed.
- 7.2 Contract monitoring efforts are increased to provide reasonable assurance that contractual reporting requirements are met and that the contractors' performance is in accordance with the terms and conditions of the contracts.

## CCE Comments and OIG Responses

CCE disagreed with our finding and recommendations and provided comments to each section of our finding.

### CCE Did Not Execute Contracts in a Timely Manner

*CCE Comments.* CCE stated that the fact that formal contracts were not executed in a timely manner does not reflect any bad faith or mismanagement by CCE, nor was there any harm to the Federal government. CCE explained that the contractors under the Cooperative Program are identified in its proposal to the Department. CCE further explained that the contractors are funded year after year to fulfill the same programmatic objectives in the authorizing legislation. CCE claims it has been a partner with the organizations identified in Table 8 from seven to fourteen years.

CCE explained that the contractors initiated program planning activities prior to the beginning of each grant year regardless of whether they have an approved proposal, budget, and signed contract. The contractors are already aware of their basic responsibilities for the forthcoming grant period since they are similar to those of the prior grant period. CCE also noted that the timely submission of contractors' proposals and budgets to CCE, and execution of formally signed contracts, are sometimes complicated by the late passage of the Federal budget. CCE also explained that the three contractors identified in Table 8 in the report were on a cash reimbursement basis for their contracts. Since the organizations are using their own funds, CCE cannot withhold Cooperative Program Grant funds to ensure compliance, as it can with other contractors that are not paid on a cash reimbursement basis.

CCE admits that formal written contracts were not executed timely and informed us that its policy has been updated to require the submission of proposals and budgets and the execution of signed contracts or award notifications two weeks prior to the start of the grant periods.

*OIG Response.* We revised the finding to include that CCE must have a system for contract administration as required by EDGAR 34 C.F.R §74.47. Although we do not believe that CCE acted in bad faith, we concluded that CCE mismanaged the contracts partly because of the untimely execution of the contracts. Without the formal execution of contracts, the Department

has no assurance that CCE is taking the first step to ensure that Department funds are obligated during the grants' period of availability.

CCE's explanation that the contractors are identified in its proposal to the Department and occurred each year with the same contractor does not provide assurance to the Department that CCE entered into binding contracts where both parties were aware of the scope of work, tasks to be performed, reporting requirements, and performance period for the contracts. As mentioned in the report, the CFO informed us that the contractors in our sample were behind schedule and did not meet the deadlines for fulfilling their reporting requirements. Despite this, CCE allowed them to perform programmatic activities for the next award year without a contractual agreement for the performance period.

We commend CCE for initiating actions to address our concerns. The changes in CCE's policy for timely execution of contracts appear to address the concerns noted in our draft audit report but CCE did not provide procedures for implementing the policy. However, the designated action official will determine the adequacy of the policy and procedures and confirm that they have been implemented during the audit resolution process. We encourage CCE to work with the Department to determine appropriate actions to take in those years when Cooperative Program funding is delayed as a result of extended budget deliberations.

#### CCE Did Not Ensure That Contractors Complied with Reporting Requirements

*CCE Comments.* CCE acknowledged that the final programmatic and financial reports were submitted well after the reports' due dates and that the three contractors did not submit quarterly reports as required by the contracts. However, CCE asserted that it carefully monitored the performance of the three contractors and all other contractors throughout the grant period, that all products and services required were provided, and that CCE has documentation to support these facts. CCE stressed that it urged the three contractors to submit the reports timely, but since the contractors operated on a cost-reimbursement basis CCE did not have the option to withhold cash advances until reports were submitted. When these contractors requested payment CCE said it required comprehensive final programmatic and financial reports and signed formal contracts before releasing payments.

CCE stated it has terminated its relationship with one of the institutions that was particularly unresponsive to its requests for timely submission of reports and all other contractors are required to work on a cash advance basis or quarterly cash reimbursement basis. CCE has established a new policy for contractors that submit untimely or unsatisfactory final reports. CCE also states it has instituted more stringent oversight procedures and provides periodic training to its staff in the implementation of the procedures.

*OIG Response.* CCE did not describe the documentation it claims it has to demonstrate that it carefully monitored the performance of the contracts or that it reviewed all deliverables, nor did it include any such documentation in its comments to our draft audit report. Without timely submission of periodic and final programmatic and financial reports, CCE would appear to lack important information needed to monitor and oversee contractor performance. In addition, the Department has no assurance that CCE monitored the performance and costs of the contracts. As stated in the report, CCE paid one contractor \$239,252 for work performed prior to receiving the corresponding programmatic report.

CCE stressed it had no enforcement actions it could take against contractors that did not submit required quarterly reports or did not submit required final reports timely because they were paid on a cash reimbursement basis. The auditors recognize that CCE may have fewer options to encourage compliance with reporting requirements when a contractor is paid on a cash reimbursement basis. However, that does not excuse CCE from its responsibility to timely collect the required reports from contractors to monitor their performance.

As discussed in Finding No.1, CCE did not meet the requirements for a financial management system that provides effective control over and accounting for grant funds and that minimizes the time between receipt and expenditure of grant funds. From our sample, CCE charged contractor costs of \$402,802 that were expended after the applicable liquidation periods and \$708,134 was expended anywhere from one months to over a year and a half after the entire grants' funds were drawn down. By requiring contractors to execute timely contracts and submit programmatic and financial reports on time, CCE will be taking steps to meet the financial management system requirements when administering Federal grants.

CCE's more stringent oversight procedures and training program for employees designed to increase contractor monitoring efforts may address our concerns in this area but CCE did not provide any details on the more stringent oversight procedures in its comments. The Department's designated action official should require CCE to submit evidence to verify that CCE has implemented adequate contractor oversight procedures during the audit resolution process.

*CCE Comments.* CCE's response to each recommendation in Finding No. 7 of the Draft Report follows—

- 7.1 CCE has established new oversight procedures to ensure contracts are properly executed before contractors are allowed to begin their work and grant funds are disbursed.
- 7.2 CCE has implemented a staff training program to increase its monitoring efforts to ensure contractual reporting requirements are met and contractors' performance is in accordance with the terms and condition of the contracts.

*OIG Response.* We did not revise our recommendations based on CCE's comments.

- 7.1 The recommendation was not revised. During audit resolution, the Department will determine the adequacy of the revised oversight procedures for contracts and verify that the procedures are implemented.

- 7.2 The recommendation was not revised. The Department will determine the adequacy of CCE's staff training program and verify that the monitoring process provides reasonable assurance that contractual reporting requirements are met and that contractors' performance is in accordance with the terms and condition of the contracts during audit resolution.

---

## OBJECTIVES, SCOPE, AND METHODOLOGY

---

Our audit objective was to determine whether CCE administered the WTP and Cooperative Program grants in compliance with applicable laws, regulations, and grant award provisions. Our review covered CCE's fiscal year August 1, 2007, through July 31, 2008.

To accomplish our objectives, we reviewed the applicable criteria contained in the EDGAR and OMB Circular A-122. We reviewed CCE's single audit report covering the Schedule of Expenditures of Federal Awards and Report on Federal Compliance for the years ended July 31, 2006, and 2007. We discussed CCE's indirect cost rate for the period ended July 31, 2009, with the Department's Indirect Cost Group. We reviewed the applicable Performance Reports and Proposals that were submitted by CCE to the Department. We reviewed CCE's policies and procedures for drawing down and expending grant funds. We reviewed accounting records, bank statements, invoices, cancelled checks, payroll records and timesheets, and other documents supporting expenditures. We interviewed CCE management and staff responsible for the administration and accounting of grant funds.

We interviewed 15 employees selected from CCE's Salary Distribution Sheet for April 2008. The Salary Distribution Sheet for April 2008 included 36 employees that were funded by multiple grants with at least one grant being funded by the Department. Seventeen of the 36 employees were available to be interviewed on July 1 and 2, 2008. We elected to interview 15 of the 17 employees. As we discussed below, CCE imposed constraints on our interviews of CCE employees that were conducted to obtain information on the percentage of their time charged to the grants. Although the information obtained during the interviews substantiated our finding on personnel costs, other information regarding the allowability of the personnel costs may have come to our attention if the interviews had been conducted in an unrestricted environment.

To determine whether the costs charged to the Department grants were reasonable, allocable, allowable, and adequately supported in accordance with applicable regulations and OMB Circular A-122, we selected costs directly charged to the grants for review. We selected 15 non-personnel transactions, totaling about \$1.1 million, for the WTP grants and 16 non-personnel transactions, totaling about \$1 million, for the Cooperative Program grants. We reviewed the June 2008 allocation for the direct costs charged to the WTP and Cooperative Program grants based on estimates. As explained above, we interviewed selected employees from the Salary Distribution Sheet for April 2008. Because we found systemic problems with CCE's accounting for textbook printing costs (Finding No. 2) and allocation of personnel costs based on predetermined percentages (Finding No. 3), the total costs charged to these accounts for our audit period were unsupported. Also, we questioned all direct costs charged to the WTP and Cooperative Program grants based on estimates for our audit period (Finding No. 6). As a result, our audit covered \$5,524,385 for the WTP grants and \$1,856,552 for the Cooperative Program grants, totaling \$7,380,937. We reviewed direct costs charged to the grants for salaries, personal service contracts, travel, meals, materials, contracts, and other direct costs from August 1, 2007, through July 31, 2008. Enclosure 4 and Enclosure 5 provide the number of transactions selected



for review, the selection methodology used for each cost category, and the total transactions for the WTP and Cooperative Program grants, respectively.<sup>16</sup>

We compared the amounts from 19 selected travel vouchers included in the documentation for 10 high dollar transactions charged to the grants travel account (account 5501) to the disbursements made to the employee. We selected three high dollar invoices paid to CCE's travel agency and reviewed the six highest ticket purchases for the Executive Director and his spouse to determine the reasonableness of the cost of the airfare and whether the costs complied with OMB Circular A-122.

To achieve the audit objectives, we relied on computer-processed data contained in CCE's accounting system. We verified the completeness of the data for the closed grants by comparing its charges in CCE's revenue and expenditure database to electronic drawdown files taken from the Department's GAPS. We could not verify the completeness of the charges to the active grants because CCE did not draw down grant funds based on grant expenditures. Therefore, the charges for active grants could not be reconciled to the total amounts drawn down for the grants as shown in GAPS. We also verified the authenticity of the data by comparing the costs recorded in CCE's revenue and expenditure database from our sample to source documentation provided by CCE. We concluded that CCE's accounting records were reliable for the intended purpose.

We conducted our audit work at CCE's office in Calabasas, CA, and our offices from May 2008 through May 2009. An exit conference was held on February 26, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Scope Limitation**

CCE required that its legal counsel be present during our interviews of CCE employees regarding the preparation of monthly timesheets, which may have created a condition in which the employee being interviewed may be intimidated and thus may not have spoken freely. We obtained an e-mail that the CFO sent to CCE employees instructing them on how to explain the process used to prepare their timesheets when interviewed by the auditors. The CFO acknowledged that he distributed the e-mail to all staff to remind them of CCE's procedures for preparing monthly timesheets. Although we did not specifically inquire about the e-mail, none of the interviewed employees acknowledged receiving the e-mail when asked whether they received any kind of communication regarding the preparation of monthly timesheets from management, the Accounting Department, or others after our initial site visit. We curtailed our plan to conduct interviews of additional employees because the presence of the attorney may have created an environment where the employees may not be able to answer questions freely

---

<sup>16</sup> The selection of the transactions was from August 1, 2007, through April 30, 2008, our initial audit period, which was expanded through July 31, 2008. Also, we did not select transactions from the School Violence Prevention Demonstration Program under the WTP grants and Democracy grant.

and the e-mail may have influenced employees to answer interview questions to conform to the procedures detailed in the e-mail.

**Enclosure 1: Awarded Amount for Each Grant and Costs Charged to the Grants for the Period August 1, 2007, to July 31, 2008**

<b>WTP Grants (Congressionally-Directed Grants)</b>			
<b>Grant Award No.</b>	<b>Grant Award Period</b>	<b>Award Amount</b>	<b>Total Costs Charged from 8/1/07 to 7/31/08 (a)</b>
Q929A040001 CC04-5	5/1/2004 to 4/30/2005	\$16,790,349	\$29,103 (b)
Q929A050001 CC05-6	5/1/2005 to 4/30/2007	\$17,211,200	\$451,489 (b)
Q929A060001 CC06-7	7/1/2006 to 6/30/2008	\$17,038,890	\$1,480,616 (b)
Q929A070001 CC07-8	7/1/2007 to 6/30/2008	\$14,044,140	\$12,447,478 (c)
Q304D080001 CC08-9	3/31/2008 to 2/27/2009	\$17,157,922	\$2,499,604 (c)
<b>Total</b>		<b>\$82,242,501</b>	<b>\$16,908,290</b>

<b>WTP - Democracy Grant (Earmark Grant)</b>			
<b>Grant Award No.</b>	<b>Grant Award Period</b>	<b>Award Amount</b>	<b>Total Costs Charged from 8/1/07 to 7/31/08</b>
Q304K080001 RDA8-9	5/30/2008 to 5/30/2009	\$2,898,463	\$336,232

<b>Cooperative Program Grants (Congressionally-Directed Grants)</b>			
<b>Grant Award No.</b>	<b>Grant Award Period</b>	<b>Award Amount</b>	<b>Total Costs Charged from 8/1/07 to 7/31/08</b>
Q304B040001 INT-3	3/1/2004 to 2/28/2007	\$4,444,373	\$190,000
Q304B050001 INT-4	3/1/2005 to 2/28/2006	\$4,572,624	\$9,835
Q304B060001 INT-5	7/1/2006 to 6/30/2008	\$4,527,002	\$986,042
Q304B070001 INT-6	6/1/2007 to 5/30/2008	\$4,527,288	\$2,920,133
Q304B080001 INT-7	3/31/2008 to 2/27/2009	\$4,447,913	\$889,271
<b>Total</b>		<b>\$22,519,200</b>	<b>\$4,995,281</b>

<b>Cooperative Program Grants (Competitive Direct Grants)</b>			
<b>Grant Award No.</b>	<b>Grant Award Period</b>	<b>Award Amount</b>	<b>Total Costs Charged from 8/1/07 to 7/31/08</b>
R304A020008 LA	9/30/2002 to 9/30/2008	\$5,129,996	\$544,602
Q304A030004 AF	10/1/2003 to 9/30/2006	\$1,988,618	\$212,802
<b>Total</b>		<b>\$7,118,614</b>	<b>\$757,404</b>

<b>Grand Totals</b>		<b>\$114,778,778</b>	<b>\$22,997,207</b>
---------------------	--	----------------------	---------------------

- (a) The Total Costs Charged from 8/1/07 to 7/31/08 only reflects the debits in the grant accounts.
- (b) Grant includes costs from the School Violence Prevention Demonstration Programs and Congress Project Program.
- (c) Grant includes costs from the School Violence Prevention Demonstration Programs.

**Enclosure 2: Lodging Costs Above the GSA Rates**

Date(s)	Hotel	Location	Cost	GSA Rate	Excessive Costs (a)
<b>Transaction Date 3/31/2008 (Total Cost of \$5,597.00 Charged to the WTP Grant Q929A070001)</b>					
1/16/2008 1/17/2008	Double Tree	Murfreesboro, TN	\$283.00 (\$134 + \$149)	\$140.00 (2 nights x \$70)	\$143.00
1/31/2008- 2/3/2008	Marriott Residence Inn	Birmingham, AL	\$297.00 (3 nights x \$99)	\$258.00 (3 nights x \$86)	\$39.00
1/9/2008- 1/11/2008	InterContinental	New Orleans, LA	\$525.00 (3 nights x \$175)	\$393.00 (3 nights x \$131)	\$132.00
<b>Total for 3/31/2008 Transaction</b>			<b>\$1,105.00</b>	<b>\$791.00</b>	<b>\$314.00</b>
<b>Transaction Date 1/31/2008 (Total Cost of \$3,581.00 Charged to the WTP Grant Q929A070001)</b>					
11/7/2007- 11/10/2007	Hilton	Houston, TX	\$683.00 (4 nights)	\$408.00 (4 nights x \$102)	\$275.00
11/7/2007 & 11/8/2007	Executive West Hotel	Louisville, KY	\$298.00 (2 nights x 149)	\$194.00 (2 nights x 97)	\$104.00
11/29/2007- 12/1/2007	Hyatt	San Diego, CA	\$780.00 (3 nights x \$260)	\$417.00 (3 nights x \$139)	\$363.00
<b>Total for 1/31/2008 Transaction</b>			<b>\$1,761.00</b>	<b>\$1,019.00</b>	<b>\$742.00</b>
<b>Transaction Date 9/30/2007 (Total Cost of \$2,783.00 Charged to the Cooperative Program Grant Q304B070001)</b>					
7/11/2007- 7/13/2007	Jury Hotel	Washington, D.C.	\$627.00 (3 nights x \$209)	\$486.00 (3 nights x \$162)	\$141.00
7/11/2007- 7/13/2007	Jury Hotel	Washington, D.C.	\$627.00 (3 nights x \$209)	\$486.00 (3 nights x \$162)	\$141.00
8/1/2007- 8/3/2007	Jury Hotel	Washington, D.C.	\$432.00 (2 nights x \$216)	\$324.00 (2 nights x \$162)	\$108.00
<b>Total for 9/30/2007 Transaction</b>			<b>\$1,686.00</b>	<b>\$1,296.00</b>	<b>\$390.00</b>
(a) The enclosure does not include questioned costs for room taxes for adjustments due to charging excessive lodging costs.					

**Enclosure 3: Questioned and Unsupported Costs Related to Business Meals**

Date	Restaurant	Amount Charged to Grants	Questioned Costs	Unsupported Costs	Reason(s)
<b>Transaction Date 3/31/2008 (Total Costs of \$5,597.00 Charged to the WTP Grant Q929A070001)</b>					
1/09/08	Froggys (Topanga, CA)	\$78.00	\$26.00		(1)
1/19/08	City Thai Fine Noodle (Pasadena, CA)	\$141.00	\$141.00		(1), (5) & (8)
1/18/08	Cisco's (Thousand Oaks, CA)	\$62.00	\$62.00		(1), (6) & (8)
1/10/08	Mi Piacce (Calabasas, CA)	\$52.00		\$52.00	(9)
1/12/08	Buchanan British Cuisine (Northridge, CA)	\$52.00	\$26.00	\$26.00	(2) & (9)
2/01/08	Tiki's Grill & Bar (Honolulu, HI)	\$168.00	\$142.00		(3)
2/01/08	Charlie & Barneys (Bloomington, IN)	\$25.00		\$13.00	(4) & (5)
1/30/08	Malibu Grill (Bloomington, IN)	\$51.00	\$9.00	\$16.00	(4), (5), (7) & (8)
<b>Total for 3/31/2008 Transaction</b>		<b>\$629.00</b>	<b>\$406.00</b>	<b>\$107.00</b>	
<b>Transaction Date 1/31/2008 (Total Costs of \$3,581.00 Charged to the WTP Grant Q929A070001)</b>					
11/10/07	Original Ninfas (Houston, TX)	\$24.00	\$12.00		(3)
11/15/07	Marmalade Café (Calabasas, CA)	\$24.00	\$24.00		(1), (6) & (8)
11/10/07	Casa Bonita (Flagstaff, AZ)	\$70.00		\$44.00	(4), (5) & (8)
<b>Total for 1/31/2008 Transaction</b>		<b>\$118.00</b>	<b>\$36.00</b>	<b>\$44.00</b>	
<b>Transaction Date 9/30/2007 (Total Costs of \$2,783.00 Charged to the Cooperative Program Grant Q304B070001)</b>					
8/04/07	Pigalle (Boston, MA)	\$104.00		\$78.00	(4) & (5)
8/03/07	Anna Maria's (Washington, DC)	\$39.00	\$15.00		(1)
7/25/07	Pyramid Alehouse (Sacramento, CA)	\$24.00		\$24.00	(5)
7/12/07	Pesce (Washington, DC)	\$156.00	\$52.00		(1) & (2)
7/14/07	Peking Gourmet Inn (Falls Church, VA)	\$936.00		\$910.00	(4), (5) & (8)
7/31/07	Adobe Cantina (Agoura Hills, CA)	\$156.00	\$156.00		Going-Away Lunch
8/06/07	Marriott (Boston, MA)	\$41.00		\$41.00	(5)
8/6/07	Chao Zhou Restaurant (Flushing, NY)	\$100.00		\$92.00	(5) & (8)
8/06/07	Imperial Seafood (Boston, MA)	\$169.00		\$156.00	(5) & (8)
8/07/07	New Shanghai Restaurant (Boston, MA)	\$180.00		\$166.00	(5) & (8)
8/08/07	China Pearl Dim Sum (Woburn, MA)	\$192.00		\$177.00	(5) & (8)
8/08/07	Yen Ching (Cambridge, MA)	\$137.00		\$126.00	(5) & (8)
<b>Total for 9/30/07 Transaction</b>		<b>\$2,234.00</b>	<b>\$223.00</b>	<b>\$1,770.00</b>	
<p>(1) Questioned meal costs for employees' not in travel status and costs not ordinary and necessary to grant.</p> <p>(2) Allowed per diem for employee(s) on travel, but questioned meal cost for coworker not on travel status.</p> <p>(3) Allowed per diem for employee(s) on travel status, but questioned meal cost for outside associates.</p> <p>(4) Allowed per diem for employee on travel status, but no documentation on who was also present.</p> <p>(5) No documentation to support meal costs are ordinary and necessary to the grant.</p> <p>(6) Questioned meal cost for outside associates.</p> <p>(7) Costs for alcoholic beverages are unallowable under OMB Circular A-122, Attachment B, paragraph 2, <i>Alcoholic beverages</i>.</p> <p>(8) The transaction tested was charged to the grant's account 5501, but part of the costs were also charged to the grant's other accounts.</p> <p>(9) Documentation did not support that meal costs only benefited the WTP grant.</p>					

## Enclosure 4: Summary of OIG Review of Selected WTP Grant Transactions

Grant Award	Account Series	Total Transactions & Total Amounts	Selected Non-Personnel Transactions & Amounts	Finding No. 1 Expired Grants	Finding No. 2 Textbooks	Finding No. 3 Personnel Costs	Finding No. 4 Questioned Costs	Finding No. 5 Unsupported Costs	Finding No. 6 Estimated Costs
Q929A040001	5300s	2 \$16,797	1(a) \$11,679	\$11,679	\$5,118(d)				
Q929A050001	5300s	2 \$447,961	2(a) \$447,961	\$447,961					
Q929A060001	5300s	8 \$242,579	No Sample		\$167,072(d)				
Q929A070001	5300s	96 \$1,326,039	6(b) \$660,031		\$904,263(d)				
Q929A070001	5500s	245 \$204,285	5(c) \$11,388				\$2,025	\$2,763	
Q929A070001	5700s	83 \$121,388	1(f) \$12,000						
Q304D080001	5300s	24 \$632,262	No Sample		\$503,870(d)				
Personnel Costs See Table 6	5100s	\$2,622,166	(g)			\$2,595,048	\$27,118		
Estimated Costs in Table 7	Various	\$735,066	(g)						\$124,794
Remaining WTP Grant Transactions		2,991 \$10,895,979							
<b>Totals</b>		<b>3,451 \$17,244,522</b>	<b>15 \$1,143,059</b>	<b>\$459,640</b>	<b>(e) \$1,580,323</b>	<b>\$2,595,048</b>	<b>\$29,143</b>	<b>\$2,763</b>	<b>\$124,794</b>

- (a) Selected transactions that were charged to older grants and were high dollar amounts charged for printing costs.
- (b) Selected five high dollar amount transactions, totaling \$598,693, for printing costs and one high dollar transaction of \$61,338 for shipping costs charged to the WTP grant.
- (c) Selected the following transactions charged to the WTP grant: two high dollar transactions totaling \$9,178 charged to the travel account 5501, all transactions for apartment lodging costs, totaling \$900 (two transactions of \$450), and one high dollar airfare transaction for \$1,310.
- (d) Amount represents unsupported printing costs for the grant because of CCE charging printing costs for textbooks for free distribution and sale.
- (e) Amount includes \$115,164 of questioned costs for retail textbooks and \$1,465,159 of unsupported printing costs.
- (f) Selected one high dollar transaction charged for a public relation contract.
- (g) Methodology explained in the Objectives, Scope, and Methodology section of the report.

[Total Costs Charged to the WTP Grant Reviewed by OIG (Table 1) composed of total selected transactions, personnel costs, estimated costs, printing costs not included in the selected transactions (Total Cost in Finding No. 2 less printing costs in Note (b) above plus the credit from Finding No. 2). Thus, \$5,524,385 = \$1,143,059 + \$2,622,166 + \$735,066 + \$1,024,093 (\$1,580,323 less \$598,693 plus \$42,463.)Rounded up]

**Enclosure 5: Summary of OIG Review of Selected Cooperative Program Grant Transactions**

Grant Award	Account Series	Total Transactions & Total Amounts	Selected Non-Personnel Transactions & Amounts	Finding No. 1 Expired Grants	Finding No. 2 Textbooks	Finding No. 3 Personnel Costs	Finding No. 4 Questioned Costs	Finding No. 5 Unsupported Costs	Finding No. 6 Estimated Costs
Q304B040001	5700s	1 \$190,000	1(a) \$190,000	\$190,000					
Q304B060001	5700s	18 \$986,042	4(a) \$544,584						
Q304B070001	5500s	137 \$113,941	3(b) \$16,753				\$4,443	\$2,634	
Q304B070001	5700s	106 \$1,670,187	4(c) \$74,413	\$63,665				\$10,748	
Q304B080001	5500s	61 \$73,221	1(d) \$1,824					\$1,824	
Q304A030004	5700s & 5800	3 \$212,802	3(a) (f) \$212,802	\$212,802					
Personnel Costs See Table 6	5100s	\$616,929	(e)			\$614,325	\$2,604		
Estimated Costs in Table 7	Various	\$199,247	(e)						\$47,347
Remaining Cooperative Program Grant Transactions		765 \$1,690,316	(e)						
<b>Totals</b>		<b>1,091 \$5,752,685</b>	<b>16 \$1,040,376</b>	<b>\$466,467</b>	<b>\$0</b>	<b>\$614,325</b>	<b>\$7,047</b>	<b>\$15,206</b>	<b>\$47,347</b>

- (a) Selected transactions that were charged to older grants and were a high dollar amount for contract costs.
- (b) Selected the following transactions charged to the Cooperative Program grant: one high dollar transaction totaling \$2,783 charged to the travel account 5501, the only transaction for apartment lodging costs totaling \$450, and one high dollar airfare transaction for \$13,520.
- (c) Selected high dollar transactions (two transactions for \$4,400) and a related transaction (\$1,948) for a personal service contract totaling \$10,748 and one transaction for \$63,665 charged to a contract that was included in the payment of other contracts selected for our review.
- (d) Selected one high dollar transaction for airfare.
- (e) Methodology explained in the Objectives, Scope, and Methodology section of report.
- (f) Two of the three transactions were charged to the Cooperative Program grants after the period of availability, as shown in Table 2.

[Total Costs Charged to the Cooperative Program Grants Reviewed by OIG (Table 1) composed of total selected transactions, personnel costs, and estimated costs. Thus, \$1,856,522 = \$1,040,376 + \$616,929 + \$199,247.]

**Enclosure 6: E-Mail Sent to CCE Employees Regarding Timesheet Preparation**

From: [REDACTED]  
To: undisclosed-recipients;;  
Sent: Friday, May 23, 2008 12:13:37 PM GMT -05:00 US/Canada Eastern  
Subject: URGENT: Explanation of how you fill out your time cards...understand carefully.

Please understand this carefully and ask me if you do not understand.

The auditors will ask you how you fill out your time cards. Thanks. [REDACTED]

Employee Time/Effort is budgeted/allocated across a single or multiple grants. At the beginning of each month employees are provided with a time sheet with the allocated percentages of time for the employee to review and ascertain with the actual effort. Should a discrepancy be noted; the employee informs accounting and the CFO makes the necessary changes and distributes the costs accordingly. The employees also indicate vacation and sick leave taken during the month. The time sheet is approved by the relevant supervisor and signed. Accounting updates the vacation and sick leave accrual.

\*\*\*\*\*

[REDACTED]  
Chief Fiscal Officer  
Center for Civic Education  
<http://www.civiced.org>

\*\*\*\*\*



## **ENCLOSURE 7**

### **CCE Comments**

CCE provided several exhibits with its letter. All personally identifiable information mentioned in CCE's comments was replaced with bracketed text. Because of the voluminous nature of the exhibits to CCE's comments and the personally identifiable information within, we have not included them in the enclosure. Copies of the exhibits to CCE's comments, less the personally identifiable information, are available on request.



Center for Civic Education

5145 DOUGLAS FIR ROAD, CALABASAS, CA 91302

# Center for Civic Education's Response to the Draft OIG Audit Report

---

(Control Number ED-OIG/A09I0010)

August 13, 2009

**Center for Civic Education’s Response to the Draft OIG Audit Report  
(Control Number ED-OIG/A09I0010)**

Table of Contents

Letter to Raymond Hendren Regional Inspector General for Audit U.S. Department of Education Office of Inspector General	1
I. CCE response to “Executive Summary”	4
II. CCE response to “Audit Results”	8
Finding No. 1—“CCE’s Financial Management System Did Not Meet Required Standards for Administering the Federal Education Grants”	8
Finding No. 2—“CCE Did Not Distribute the Number of Free Textbooks Specified in Its Proposal and Improperly Charged the WTP Grant for the Costs of Retail Textbooks”	19
Finding No. 3—“CCE Used Predetermined Percentages for Personnel Costs Charged to the WTP and Cooperative Program Grants”	25
Finding No. 4—“CCE Charged Costs to the WTP and Cooperative Program That Were Not Reasonable, Necessary, or Allocable to the Programs”	28
Finding No. 5—“CCE Did Not Properly Allocate or Provide Adequate Supporting Documentation for Other Direct Costs Charged to the WTP and Cooperative Program Grants”	33
Finding No. 6—“CCE Improperly Charged the WTP and Cooperative Program Grants for Direct Costs That Were Based on Estimates”	38
Finding No. 7—“CCE Did Not Properly Execute and Monitor Its Contracts for the Cooperative Program Grant”	40
Conclusion	44
Attachments	45

August 13, 2009

Control Number ED-OIG/A09I0010

Raymond Hendren  
Regional Inspector General for Audit  
U.S. Department of Education  
Office of Inspector General  
501 I Street, Suite 9-200  
Sacramento, CA 95814

Dear Mr. Hendren:

We are pleased to provide the following information and enclosed response on behalf of the Center for Civic Education ("CCE" or "Center") to the draft Office of Inspector General (OIG) findings and recommendations.

The enclosure provides a detailed, point-by-point response to each of the proposed findings in the draft report. We in no way question the good faith of the auditors in conducting this audit, and we appreciate some of the issues they have identified, which have assisted us in making improvements in specific financial management practices. However, we must register our very strong belief that some of the sweeping recommendations in the report are extreme and unwarranted. We have several overall reactions to the draft report, as follows:

- Apart from some minor, unallowable costs mistakenly charged to grants, the auditors found no evidence of expenditures for anything other than allowable programmatic costs specified in proposals and budgets approved by the U.S. Department of Education (ED). Stated another way, from 99.9991% to 99.998%<sup>17</sup> of all audited costs were clearly spent on furthering the goals of the ED grant programs. By saying this, CCE does not seek to diminish the importance of meeting all technical requirements relating to accounting for use of grant funds; indeed, thanks to this report, CCE has already altered some of its grants management policies and administrative practices. CCE merely wishes to stress that the vast majority of grant funds were spent to further programmatic goals approved by ED. In short, CCE performed precisely the work it promised to do, performed that work very well, and effectively and conscientiously served the purpose of each of ED's grants.
- The process used by the OIG to perform the audit and issue this draft report is fundamentally unfair. First, because OIG disapproved of the fact that CCE availed itself of its right to have a witness present during employee interviews regarding staff time accounting practices, OIG, as it acknowledges in the draft audit report, curtailed CCE's opportunity to provide additional information justifying these expenses. In effect, OIG's audit work and its draft audit report would punish CCE for exercising

---

<sup>17</sup> This figure depends upon whether one accepts all of the costs the auditors found unallowable or only those the Center agrees were unallowable. *The Center has reimbursed open grants for the .0009% in costs it agrees were mistakenly charged to grants and unallowable.*

its rights, and the draft audit report furthermore materially mischaracterizes CCE's purpose in having a witness present at the interviews. Second, while OIG granted short extensions to reply to the draft audit report, it declined CCE's request to extend the deadline for responding to the audit until ED complies with CCE's Freedom of Information Act (FOIA) request for precedential documents that relate to the issues in the audit. As you know, CCE filed a FOIA request on June 8, 2009, but, to date, ED has failed to provide documents in response to our request. Contrary to its statutory obligations, ED has, to date, denied CCE access to ED information that CCE needs to respond to the draft audit report. If OIG proceeds to issue a final audit report without ED's having complied with our FOIA request, ED may be prejudicing our ability to respond to the draft audit by failing to provide public information relevant to the audit. We respectfully renew our request that a final audit not be issued until these documents are provided and until we have had an opportunity to review them and file a supplementary response, if warranted.

- The recommendation in the draft report that CCE be designated a "high-risk grantee" subject to special grant conditions is plainly unwarranted. CCE has a well-deserved reputation for program quality and responsible administration of grants. We take strong exception to this proposed finding. Even if CCE does not prevail on specific cost accountability issues raised in the draft audit report—and we believe that many of these proposed findings should not and will not be sustained—these issues at most reflect discrete technical mistakes or misunderstandings of specific procedures made by particular grants managers. Changes have been made in each of these areas to respond to recommendations in the draft audit report. Proposed, conclusory findings regarding systemic deficiencies simply are not supported by the discrete, concrete compliance issues cited in the report. The regulatory standards for designation as a high-risk grantee do not exist here. We note also that each year CCE has engaged an independent auditing firm to conduct A-133 audits. The audits have consistently reported that "In our opinion, the Center has complied, in all material respects, with the requirements referred to above (Government Auditing Standards issued by the Comptroller General of the United States and OMB Circular A-133) that are applicable to each of its major federal programs...."
- CCE is designated in the Elementary and Secondary Education Act (ESEA) as a multiyear recipient of funds (subject to annual appropriations), for the duration of the ESEA authorization. To recommend, as the draft report does, that CCE return grant payments that were carried over and obligated in the year after the one-year designated grant period in particular awards (but within the congressionally authorized period) makes no sense. There is no harm to any federal interest presented by this issue.
- In making the case that CCE drew down funds in excess of immediate needs and/or did not expend, in a timely manner, funds that it had drawn down, the draft audit report relies on the cash on hand in CCE's checking account. This reliance fails to take into account funds obligated through outstanding checks that had not been deducted by the bank. The proper measure of CCE's rate of expenditure is reflected

in its spending ledger. Attachment D shows that CCE held an average negative balance of ED funds during the audit period which, in effect, meant that CCE was operating on what was essentially a cash reimbursement basis.

- Lastly, again assuming the worst—that CCE does not prevail on specific issues in the audit regarding the process for accounting—we submit that a recovery of grant funds by ED is unjustified for these issues. Under Section 452 of the General Education Provisions Act (GEPA), a grant recipient that made an unallowable expenditure or failed to account for funds is obligated to return an amount that is proportional to the harm its violation caused to an identifiable federal interest associated with the federal grant program. CCE submits that, with minor exceptions for which it has already reimbursed the grants, the issues presented in the audit at most involve minor deviations in the specifically prescribed processes for accounting, but do not amount to a basic failure to account for proper use of grant funds.

Futhermore, Section 452 of GEPA requires ED, in seeking to recover grant funds, to provide an analysis reflecting the value of the program services actually obtained in determining harm to the federal interest. These grants were properly implemented and achieved their purposes. This issue may be for resolution by program officials, not OIG, but we want to stress that CCE's implementation and administration of these grants has well served, not harmed, applicable federal interests. Each year CCE's domestic programs reach approximately 2,000,000 students, and its international programs reach approximately 1,200,000 students. Research indicates these programs clearly foster a profound understanding and commitment to the fundamental values of constitutional democracy and students' capacities to participate competently and responsibly in the political life of their communities and nations. These programs are the most thoroughly researched programs in the field of civic education. CCE would be pleased to provide, either to OIG or to program officials, evidence of the value of the program services it rendered under these grants. This issue was not addressed in the audit.

We would appreciate an opportunity to discuss these issues and would be happy to answer any questions or provide additional information.

Sincerely,

Charles N. Quigley  
Executive Director  
Center for Civic Education

Enclosure

## **Center for Civic Education's Response to the Draft OIG Audit Report**

### **Control Number ED-OIG/A09I0010**

#### **I. CCE response to "Executive Summary"**

##### **A. General**

During the audit period, the Center for Civic Education's (CCE's) expenditures for U.S. Department of Education (ED) projects totaled \$22,166,652. These funds were used to support domestic and international civic education programs in all 50 states, the District of Columbia, the U.S. trust territories, and more than 80 other nations. The programs involved approximately 453 domestic subawards and 133 international subawards ranging from \$2,000 to more than \$960,000.

In its executive summary, the OIG audit report paints a seemingly dire picture of CCE's financial conduct. This picture, however, is highly inaccurate.

Only a miniscule fraction, about .002% to .0009%,<sup>18</sup> of the audited costs were identified by the auditors as having been spent on costs that did not benefit the goals of the ED-funded programs,<sup>19</sup> and these were the result of simple bookkeeping mistakes. There are no allegations here that CCE's financial conduct in any way impaired its educational mission. There are no specific allegations that the integrity of CCE's work was in any way compromised, nor could there be. For example, it is true that CCE carried funds forward from prior years to pay for textbooks to be used in a following year without obtaining permission to do so from ED. However, funding of such costs was in the approved budget for each year, the texts were printed and distributed free to schools throughout the nation as required in CCE's approved proposals, and the result was the freeing up of funds from the subsequent budget to pay for additional professional development programs and other related and legitimate programmatic costs. Moreover, the Elementary and Secondary Education Act (ESEA) expressly authorized these grants to CCE for the duration of the ESEA authorization period (Secs. 2341-2346, ESEA). No federal interest was served in funding the project one year at a time—rather than as a multiyear project subject to annual appropriations as is often done for direct grants by ED—and in this circumstance there is no harm to any federal interest in carrying these funds forward to the subsequent fiscal year for these legitimate project costs within the period of congressional authorization. On the contrary, the subject expenditures furthered specific statutory purposes “to continue and expand” CCE's educational program (Sec. 2344(b)(1)(A), ESEA) and to make the program broadly available (Sec. 2344(b)(1)(2), ESEA).

The draft audit report is replete with these sorts of instances where arguable technical variances from administrative processes took place in the context of perfectly acceptable and appropriate

---

<sup>18</sup> See footnote 1.

<sup>19</sup> CCE recognizes that the auditors claim certain costs cannot be substantiated and thus, possibly, might be eventually deemed unallowable. The overwhelming majority of such costs are personnel costs reflected by CCE's time sheets. CCE vigorously denies that such costs were unallowable.

programmatic payments. For example, the draft report includes a proposed finding that CCE drew down certain grant funds prematurely. However, as detailed in this response, CCE's financial management actually *saved* the government money by drawing down a monthly average of \$63,779 less in grant funds than it was eligible to receive. And, the money that was drawn down went to pay for allowable programmatic expenses.

The draft likewise is inaccurate in indicating that CCE did not have written policies regarding a wide variety of financial procedures. These assertions by the auditors will be addressed with specificity in the body of this response. The fact is that CCE did have written financial policies. These policies were detailed in policy manuals that were handed to the auditors by CCE's attorney.

What is particularly troubling in the draft audit report is its attempt to take a small number of discrete issues over technical accounting procedures—where we concede there are some legitimate issues (but for which we strongly believe we are in substantive compliance, as explained in the sections below)—and contrive a finding of systemic inadequacies in CCE's financial management systems and a recommendation that CCE be designated a “high-risk grantee” subject to special grant conditions. These sweeping, proposed findings simply are not supported by the particular accounting issues addressed in the report. At most, these findings represent discrete misunderstandings of applicable requirements on a small number of issues. We take very seriously our responsibility to account transparently for the proper use of federal grant funds and, without waiting for the outcome of these issues in the audit process, we have taken steps to address these issues, as outlined in the sections below. Given the nature and scope of the accounting issues and the corrective actions we have taken, Finding No. 1 and the recommendation to designate CCE as a high-risk grantee are unwarranted and should be withdrawn from the draft audit report.

The draft audit report includes a number of specific recommendations regarding repayment of grant funds that the report claims have been misspent or not properly accounted for. In a small number of cases, we agree with these proposed findings and have reimbursed the grants. For most issues, we contest the proposed finding, for the reasons articulated in the following sections of this report. One fundamental point needs to be noted here, however: contrary to the recommendations for repayment in the audit report, ED by statute has the burden of establishing a prima facie case for the recovery of funds, “*including an analysis reflecting the value of the program services actually obtained in a determination of harm to the Federal interest.*”<sup>20</sup> That issue was not addressed in the audit or the audit report. We will be pleased to provide whatever information is needed on this issue to OIG or to the program office responsible for resolving the audit. As demonstrated below, CCE performed precisely the work it promised to complete, it performed that work well, and it delivered full value for the grant money it received. CCE

---

<sup>20</sup> Section 452(a)(2) of the General Education Provisions Act, 20 U.S.C. 1234a(a)(2). Note that Section 452(a)(3) provides that failure by a recipient to maintain records required by law, or to allow ED access to such records, shall constitute a prima facie case for purposes of paragraph (2), but it does not, in our view, obviate the requirement to analyze the value of program services obtained in determining harm to the federal interest. ED regulations implementing these provisions do not address the value of services issue (34 CFR Part 81). Also, CCE maintained and provided access to the required grant records.



vigorously asserts that its work was not impaired, and the effectiveness, impact, and integrity of its programs were not compromised in any way by any issues raised in the audit report.

Specifically, during the academic year covered by the audit period, the curricular programs supported with ED funds were used by teachers and students in schools in every congressional district of the United States and in more than 80 other nations. Annual participation by students is estimated at more than 2,000,000 for domestic programs and 1,200,000 for international programs, totaling 3,200,000. Research indicates that students participating in these programs exceed their peers and adults in knowledge of the fundamental principles of constitutional democracy, the use of intellectual and participatory skills, and the acquisition of dispositions that facilitate competent and responsible participation in the political life of their communities and countries. Indeed, these programs are the most thoroughly researched in the field of civic education. For more information on research on CCE programs, please see [civiced.org/research/](http://civiced.org/research/).

## **B. Scope Limitation**

We also need to address the scope limitation described in the executive summary of the report. As stated in that section, OIG curtailed interviews with CCE personnel regarding the preparation of monthly time sheets to document time worked on grants because CCE required CCE counsel to be present at these interviews. OIG auditors viewed this as an attempt by CCE to intimidate employees and prevent them from speaking freely. The draft report acknowledges that additional information on this issue may have come to OIG's attention if it had not curtailed the interviews.

OIG's concern is unfounded and contradicted by the facts. As acknowledged in an earlier draft of the audit report (but omitted from the current version), CCE employees informed the auditors that they had been instructed by CCE management to tell the truth in these interviews, which they did.<sup>21</sup> CCE's executive director, on multiple occasions, told employees to tell the truth when interviewed by the auditors. An attorney was present during interviews because CCE's board of directors wanted to make sure young staff members did not feel intimidated by the auditors.<sup>22</sup> In fact, we know of no instance when the auditors ever attempted to intimidate anyone, but this was the sole concern that led to an attorney being present. The auditors did nothing wrong during their interviews, but neither did CCE. The suggestion that CCE may have hampered the auditors' investigation is simply a distortion of the facts.

The May 23, 2008, email from CCE's Chief Fiscal Officer (CFO) to CCE employees—referenced in the draft audit report as an attempt to coach their answers in the OIG interviews (Attachment B)—was prompted by the CFO's concern that individual employees would be

---

<sup>21</sup> The audit omits language from a prior draft stating that when the auditors asked the employees "whether they received any kind of communication regarding the preparation of monthly time sheets from management, the Accounting Department, or others since our initial site visit, *some employees responded that the Executive Director had told them to be truthful and most employees responded that no communication was distributed to them*" (emphasis added).

<sup>22</sup> The auditors originally represented to CCE's executive director that a specific federal regulation prohibited a CCE employee or anyone else from being present as a witness during auditor-conducted interviews. That representation was inaccurate, and eventually the auditors permitted CCE's attorney to be present.

intimidated by auditors and therefore should be reminded of the record-keeping procedure. Although the email was benign in intent, when CCE's director of administration saw it, he was concerned that it could be perceived as an attempt to coach employees. When the executive director returned to the office from an overseas trip on May 29, the director of administration notified him of his concern regarding the email. Within 24 hours, a meeting was held with all staff. During this meeting and subsequent staff meetings, the executive director explained that the OIG auditors were federal officials responsible for determining staff and CCE compliance with federal regulations. Furthermore, he explained that to lie to a federal auditor is a federal crime and that any staff that did so would endanger CCE and would individually be subject to prosecution. He directed all staff to answer the auditors' questions directly and honestly; that is—to tell the truth.<sup>23</sup> At the beginning of the interview process, on July 1, 2008, the executive director informed the auditors that he had been directed by his board to have a witness attend the interviews and apologized for any inconvenience this might cause.

CCE counsel met with staff members who were to be interviewed by the auditors and gave them strict instructions to tell the truth in response to auditor questions. The attorney then sat in on the auditors' interviews with staff. Afterward, he noted that in every instance in which the auditors asked staff if they had been coached, they responded either "No" or that they had been told to tell the truth.

CCE has no disagreement with the statement in the draft audit report, derived from Government Auditing Standards, that "testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated." That is precisely why the CCE board of directors decided to have counsel present, recognizing the potential that individual staff members scheduled to be interviewed—many of whom were young and relatively inexperienced—might be intimidated by private interviews with three federal auditors.

What is most troubling about this issue is not only the unsupported inferences drawn in the draft report, but also the actions that OIG took to curtail its fact-gathering on this issue. In effect, OIG may have prejudiced CCE's opportunity to address the audit issue by cutting short CCE's opportunity to present additional evidence on the issue of accounting for staff time. We submit that OIG's conduct—first, incorrectly advising CCE that it had no right to have an attorney present; second, drawing negative and unwarranted inferences from that presence; and third, curtailing further examination of this issue—does not meet the most elementary standards for neutral fact-gathering and fair treatment of grantees.

---

<sup>23</sup> CCE staff presumably did not mention the email from the CFO regarding CCE time sheet procedures because they were directed to tell the truth and repeatedly warned of the possible consequences of not doing so by the executive director and CCE's attorney. Thus, the email had no relevance to them, particularly as it was sent on May 23, 2008, almost six weeks before the interviews took place on July 1 and 2, 2008.

## **II. CCE response to “Audit Results”**

CCE believes that the findings included in the “Audit Results” section are in some instances disproportionate to the discrete issues identified by the auditors, in some instances not substantiated by the auditors, and in some instances inaccurate. Each of the findings is addressed in the following subsections.

### **Finding No. 1—“CCE’s Financial Management System Did Not Meet Required Standards for Administering the Federal Education Grants”**

#### **A. Regulatory Controls and Procedures**

The auditors claim that CCE was not in compliance with EDGAR 34 C.F.R. 74.21(b), which provides the following:

*Recipient’s financial management system shall provide for the following:*

*(3) Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all assets and assure they are used solely for authorized purposes....*

*(5) Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants or payments by other means for program purposes by the recipient....*

*(6) Written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award....*

**CCE response regarding controls and written procedures to ensure proper and timely use of grant funds.** OIG’s draft finding is a conclusory finding that is not supported by the specific, concrete issues identified. CCE firmly believes that its financial management systems comply with applicable regulations. CCE’s fiscal records are complete and transparent. All expenditures were accounted for and, with minor exceptions noted above and explained below, spent for authorized purposes specified in its ED-approved proposals and budgets. Furthermore, each year, CCE has engaged an independent auditing firm to conduct A-133 audits. It has consistently found that, “In our opinion, the Center has complied, in all material respects, with the requirements referred to above (Government Auditing Standards issued by the Comptroller General of the United States and OMB Circular A-133) that are applicable to each of its major federal programs....”

All transactions are documented clearly and appropriately segregated in CCE’s accounting records. The only funds that were mistakenly used for unauthorized purposes were the results of bookkeeping errors or program staff charging incorrect accounts. CCE believes these costs totaled approximately \$6,296, or.0009% of the \$7,380,937 in ED funds that were audited, although the auditors claim that these costs totaled about \$13,000, or.002% of the audited funds.

CCE believes such mistakes do not reflect serious systemic shortcomings in its control over and accountability for all funds; rather, these are inevitable human errors. More importantly, the principal bases cited by OIG for this finding relate to the periods for obligating funds and the timing of expenditures, which reflect honestly held disagreements or possible misunderstandings about applicable requirements, not systemic deficiencies. Changes in policies and practices have been made in each of these areas to address the identified issues. All of this is discussed below in the context of the report's specific draft findings.

CCE's policy and procedures manuals do include written procedures consistent with the subject requirements. For example, CCE's Financial and Administrative Policies Manual, Section 3.4(E) in effect at the time of the audit, stated, "According to Treasury Circular 1075, the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the CCE should be minimized and should be limited to the actual, immediate cash requirements of the CCE." Section (f) stated, "If required by the Federal agency, the CCE will, insofar as feasible, limit cash advances in the hands of their subgrantees or grantees to not more than their needs."

CCE has and uses extensive policy, procedures, and personnel manuals designed to ensure compliance with federal cost principles. It also has and uses materials relevant to this matter provided by ED, such as EDGAR, the attachments to its Grant Award Notification, and miscellaneous documents provided from time to time, such as the "Expanded Authority Amendments" to EDGAR contained in Attachment C. In addition, CCE uses similar materials provided by such federal agencies as the Department of Justice and the Department of State, the U.S. Agency for International Development, and the National Endowment for the Humanities.

**Change in CCE policies and procedures.** The audit has revealed that, in spite of having policy, procedures, procurement, and personnel manuals on hand, both programmatic and fiscal staff need increased periodic training to ensure actual practices conform with written policies and procedures. Shortly after the audit began, CCE held a number of training programs for staff in fiscal management and grant compliance, which included a review of CCE's manuals. Such training programs will continue to be held on a regular basis and at other times when circumstances call for them. Furthermore, CCE now provides time at every weekly staff meeting to address any compliance issues that might arise between formal training sessions. In addition, CCE has revised its policy, procedures, procurement, and personnel manuals to make them more user-friendly and to ensure that they clearly and appropriately cover all issues addressed in this audit.

## **B. Authorized Periods of Availability**

**The draft audit report states that CCE did not have controls to limit use of grant funds to authorized periods of availability.**

The draft report states that CCE charged grants for several costs that were "obligated after the period of availability" and referred to EDGAR, 34 CFR 74.28, which states the following:

*[w]here a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period....*

**CCE response regarding the obligation of funds.** CCE does not agree that any costs were “obligated after the period of availability.” We think it is important to note that ED support for the CCE programs that were audited has been directed by Congress since 1987. Congress authorizes CCE’s programs for periods ranging from five to seven years, directs ED to fund them for the period for which they are authorized, and each year directs ED to fund the programs at levels established through the appropriations process. Thus, each year’s program is essentially a continuation of the prior year’s program. For this reason, we think CCE’s programs should be viewed by ED as multiyear projects and that the provisions of EDGAR 34 CFR 75.250, 251, and 253 should apply to these grants. This would mean that CCE could “expend funds that have not been obligated at the end of a budget period for obligations of the subsequent budget period...” ((34 CFR 75.253 (c) (1)). In short, since Congress treats the program as a multiyear project, we respectfully believe that ED should do so as well. In this circumstance, it serves no federal purpose to require that grant funds be obligated within a particular year, and it causes no harm to any federal interest if CCE expends these funds across fiscal years within the years that the program is authorized and funded by Congress. In this regard, it is interesting to note that the ED competitive grant awards under the same authorizing legislation are treated as multiyear grants.<sup>24</sup> There is no rational basis for a multiyear congressional authorization for the express purpose of funding CCE to be restricted in the manner recommended in the draft audit report.

We also think it relevant to note that several years ago, the ED program officer supervising CCE’s programs provided the CFO a document entitled “The ‘Expanded Authorities’ Amendments,” which referred to amendments to several sections in EDGAR (see Attachment C). This document contained several statements in a section entitled “Carryover” that led CCE’s CFO to believe that it was allowable to carry funds forward from prior years. The document quoted from EDGAR regulatory provisions, indicating that “Unexpended funds are carried over from one budget to the next without prior approval” (Section 74.25(e)(3)) and “Unexpended funds may be used for any allowable cost that falls within the approved project scope” (Section 75.253 (c)(1))—the section regarding multiyear projects.

As a technical matter, CCE’s CFO may have misread these provisions generally to authorize carryover absent a grant award designated as a multiyear award. Nevertheless, given the multi-year statutory provisions for these particular grants, CCE believes these grants properly should be understood as a multiyear project and it notes that all funds spent in subsequent grant years were spent entirely for the allowable costs of its educational programs. For example, the first three items challenged by the auditors, which appear in Table 2 of their report, identify charges for the printing of textbooks that were provided free to public and private schools throughout the country—an allowable cost included annually in the proposals and budgets approved by ED.

The fourth and fifth items in Table 2 identify charges for the payment of subawards to Bowling Green State University (BGSU) and the American Federation of Teachers (AFT) for their participation in the Cooperative Program (CCE’s Civitas Exchange Program). BGSU has participated in this program for seven years and AFT has participated for 14 years. For the record, the scholars and civic education staff at each institution responsible for fulfilling

---

<sup>24</sup> In recent years such multi-year grants have been awarded to the American Federation of Teachers, the Center for Civic Education, the Constitutional Rights Foundation of Chicago, and Russell Sage College of New York.

programmatic obligations have had an excellent record of doing so. The fiscal offices of both institutions, however, have been seriously lacking in regard to the timely signing of contracts and submission of documentation of expenditures. Both institutions use their own funds throughout the grant periods and then ask for reimbursement typically far after the termination of grant periods, which has led to the issues identified by the auditors. It should be noted that CCE staff frequently urged these organizations to submit the required documents, but the organizations failed to respond until far after they were due.

The auditors correctly point out that the payments for the subawards to both institutions occurred after the end of the “grant performance period.” They also suggest that the payments were made for “contract services that were obligated after the period of availability” based upon the observation that the formal executed contracts with both institutions are dated after the grant period. CCE disagrees with this proposed finding. First, as discussed above, CCE believes these grants should be understood as multiyear projects, with funds from one grant year able to be carried into a subsequent year. Second, CCE believes that legally binding and enforceable contractual obligations were established with both BGSU and AFT at or before the beginning of the applicable grant period, that the tardily signed formal contracts merely memorialized these prior enforceable agreements, that both BGSU and AFT fully performed their services during the grant period, and that therefore CCE was legally obligated to pay for the fulfillment of the subawards.

More specifically,

- Both BGSU and AFT had received subawards for a number of years before the grant period in question and had reasonable expectations that they would receive continued subawards because, among other things, they were aware that they were included in CCE’s proposal and budget that were approved annually by ED.
- At the beginning of the grant period, CCE staff notified BGSU and AFT that they would be receiving subawards and the amount of funding they would receive. They were also asked to submit proposals and budgets for the grant period and notified that signed contracts would be established upon CCE’s receipt and approval of the proposals and budgets.
- Programmatic reports obtained by CCE from BGSU and AFT document that they began to fulfill their obligations under their subawards from the beginning of the grant period and completed them during the grant period.
- Both BGSU and AFT supervised domestic and international partner organizations that also received subawards and also submitted programmatic reports that indicated they began to fulfill their obligations under their subawards from the beginning of the grant period and completed them during the grant period.
- The programmatic activities of both institutions were monitored by CCE staff to ensure that their programmatic obligations were met during the aforementioned grant period.

Summarizing, with respect to the aforementioned disputed costs, CCE believes these costs clearly benefited the grant and,

- the expenditures were otherwise allocable, allowable, and reasonable;
- the expenditures were approvable at the time that they were made;
- the facts and circumstances of the expenditures show that CCE did not intend to circumvent ED's grant requirements.

CCE's subaward policy and procedures. The auditors note that during a meeting at CCE on February 13, 2009, they "provided a table showing the information regarding 98 transactions totaling \$1,744,087 that were charged to grants after CCE had made the last GAPS draw for the grants" (see Table 3 in the draft audit report). CCE would like to point out that of the 98 transactions totaling \$1,744,087 identified by the auditors, \$1,157,403 was encumbered for payments to subawardees for obligations incurred during grant periods but paid later due to the late receipt by CCE of final reports from subawardees. The remainder was composed of \$459,640 for the publication of textbooks previously noted in Table 2, and \$127,044 for salaries and other program costs.

During the audit year, CCE managed 453 domestic and 133 international subawards ranging from about \$2,000 to more than \$960,000. At the end of the grant period, each subawardee was required to submit satisfactory final programmatic and fiscal reports prior to receiving final payment under their subawards. Although most of the recipients of CCE's 586 subawards made during the audit year were prompt in their submission of final reports and requests for final payments, a few (three subawardees identified by the auditors in particular) took months and, in some cases, more than a year to submit satisfactory final reports—long after CCE had made its final drawdown of grant funds.

CCE is persistent in urging subawardees to submit their paperwork in a timely manner but has not always been successful in doing so. The problem is most common when the subawardees are universities or other large organizations that use their own funds throughout grant periods and request reimbursement afterwards—sometimes long afterwards—and CCE's policy is not to disburse funds without adequate programmatic and financial documentation.

**Change in CCE policies and procedures.** However the audit is resolved, CCE has instructed program directors and fiscal management staff to continue to work closely together to facilitate the timely obligation and expenditure of grant funds within particular grant periods. CCE has established new written policies and procedures to ensure this takes place. Furthermore, since it is likely that some grant funds will exist after the end of a grant period due to, for example, the late return by subawardees of unexpended grant funds, CCE will handle such funds in accordance with applicable requirements. In order to ensure the timely signing of formal, written contracts with those receiving subawards, CCE has implemented new policies and procedures that require organizations receiving annual subawards to submit proposals and budgets to CCE for approval a minimum of two weeks before the beginning of grant periods. CCE then reviews and approves proposals and budgets and obtains signed contracts from those receiving subawards at the beginning of the grant period.

### **C. Time between Receipt and Expenditure of Grant Funds**

**The auditors state that CCE did not have procedures to minimize time between receipt and expenditure of grant funds.**

The auditors find that there were “98 transactions, totaling \$1,744,087 that were charged to grants after CCE had made the last GAPS draw for the grant. The transactions typically occurred weeks, months, and in a few cases more than a year after the last draw of grant funds.” They cite EDGAR 74.22 (b) and note that the GAPS form used for requesting funds requires the funds to be spent within three days of their receipt.

1. General. CCE has three responses to this finding: first, in the majority of cases, CCE did all it could given that third parties were working on a cash reimbursement basis, and they presented billing documentation extremely late; second, although CCE was unaware of this process, EDGAR (34 CFR 74.71(b)) authorized ED to approve holding these funds for an extended period of time in order to reimburse subawardees; and third, notwithstanding all of the above, the procedures used by CCE actually saved the taxpayers money (see below).

2. CCE’s procedure actually saved the government money. CCE assumes the ED rationale for limiting cash advances to what is needed for three-day periods is to enable the federal government to gain interest on its funds for as long as possible before disbursing them. Assuming this is correct, CCE did not cost the government lost interest revenue by virtue of how it administered the grant. For a variety of reasons, throughout the audit period CCE drew down a monthly average of \$63,779 *less* than it actually spent on ED programs.

A review of the table included as Attachment D reveals that during the audit period, the average monthly drawdown of ED funds was \$1,783,441 and the monthly CCE expenditure for those programs was \$1,847,221. Thus, throughout the audit period CCE was consistently drawing down less ED funding, on average, than it was paying out—a total shortfall of ED funds at the end of the audit period of \$765,360.

This happened because the ED funds drawn down were deposited in a cash bank account that included funds from a number of other sources, including CCE’s non federal contracts, donations, and other unrestricted funds. CCE used money from these other funds to pay for the monthly shortfall. In effect, CCE used these other funds to advance money to cover the ED shortfall until such time as additional ED funds were drawn down. The fact is, the federal treasury (and ultimately the taxpayers) benefited from this situation by being able to accumulate interest on funds that could legitimately have been drawn down by CCE. CCE was, by default, functioning on a cost reimbursement basis.

The draft audit report’s assertion that CCE drew down more funds than were needed for three days’ expenses was based upon the amount of funds held in CCE’s checking account, which did not take into account the obligation of outstanding checks (see line 6 in Attachment D) or deposits in transit (see line 7 in Attachment D) contained in CCE’s ledger. The ledger would have shown that CCE had a monthly average of \$647,000 in outstanding checks (see line 6 in Attachment D) that could be cashed at any time. In fact, rather than holding a surplus of ED funds in its ledger, CCE had a negative cash balance of ED funds in its ledger for all but one



month during the audit period (see line 10 in Attachment D). Therefore, the draft audit report's claim that CCE drew down more funds than required for its immediate needs is incorrect.

3. The ED monitoring system did not notify CCE that it had drawn excessive amounts of cash. In the attachments to CCE's grant award notification, there is a "Memorandum to ED Discretionary Grantees" (Attachment E) that includes the statement, "Keep in mind that the Department monitors cash drawdown activity for all grants on a weekly basis. Department staff will contact grantees who appear to have drawn down excessive amounts of cash under one or more grants during the fiscal quarter to discuss the particular situation." The fact that the Department did not contact CCE regarding drawdowns during the audit period and had never done so in more than 15 years prior to the audit period led CCE's CFO to believe that his drawdowns on an aggregate basis were not excessive. And, as may be seen in Attachment D, they were not excessive.

**Change in CCE policies and procedures.** CCE will continue to maintain the minimum allowable ED funds in its cash accounts that are required to meet its average daily needs. CCE will work with ED to develop an acceptable means of drawing down and holding funds obligated during a grant period to be paid to subawardees upon submission of satisfactory final reports after grant periods and add the resulting policies and procedures to its manuals. CCE also has established a new policy regarding subawardees that have not submitted satisfactory final reports within 60 days after the termination of a grant period. Such organizations will receive a registered letter informing them that if final reports are not received by the CCE within 90 days after the termination of a grant period, funds will be returned to the federal government and will not be available to them. If there are situations that call for other action, CCE will consult with ED and act accordingly with ED's approval.

#### **D. Reasonableness, Allocability, and Allowability of Costs**

**The auditors state that CCE did not have adequate procedures for determining the reasonableness, allocability, and allowability of costs.**

The audit report includes a proposed finding that "CCE did not have adequate procedures for determining the reasonableness, allocability, and allowability of costs charged to the grants."

**CCE response to the issue of adequate procedures for ensuring reasonableness, allocability, and allowability of costs.** CCE respectfully submits that these findings do not reflect a complete and accurate portrayal of the strengths and weaknesses of CCE's fiscal management of grant funds. As noted above, CCE had policy, procedures, and personnel manuals that were designed to guide staff in grant management in compliance with federal regulations as well as EDGAR and the other relevant materials provided by ED and identified above.

CCE strongly disagrees with the draft audit report's findings that (1) all of the costs they have identified were not reasonable, allocable, or allowable under applicable regulatory requirements and (2) that CCE did not have adequate procedures for determining the reasonableness, allocability, or allowability of these costs. In fact, CCE affirms that the vast majority of the costs identified by the auditors were reasonable, allocable, and allowable.

The draft audit report has correctly identified some shortcomings in CCE's fiscal management. However, the problems are greatly overstated. The following is a more accurate portrayal of what happened in regard to the costs noted in this section of the draft audit report's findings. (Note: CCE briefly notes the bases of its disagreements with Findings No. 2–6 here and sets them forth more fully in its subsequent responses.)

#### 1. Personnel costs.

- **Draft audit report's statement regarding personnel costs.** In Finding No. 3, the auditors state that "We reviewed CCE's policy, procedures, and personnel manuals and found they did not have written procedures for employees to follow to complete their monthly timesheets." Further, they claim that CCE did not have documentation to support that the \$3,209,373 charged to the five different ED grants for salaries was properly allocated to the grants.

**CCE response.** CCE strongly disagrees with the draft audit report's findings. CCE

- did have written procedures for completing monthly timesheets (see Attachment F), and
- has monthly timesheets for all staff throughout the audit period signed by staff members and their supervisors that support the charges of \$3,209,373 to the grants. The draft audit report questions the validity of the timesheets. CCE believes strongly that there is not an adequate basis for questioning the documented time distribution, as will be explained in its response to Finding No. 3.

#### 2. Non-personnel costs.

- **Statements regarding non-personnel costs.** The draft audit report identifies a number of costs and states that "CCE did not determine whether costs were reasonable, allocable, and allowable," and that CCE did not have documentation to support that certain costs were "reasonable, allocable, and allowable."

**CCE response.** The draft audit report summarizes Findings No. 2–7 in its section regarding Finding No. 1 in order to support the contention that CCE should be considered a "high-risk grantee." Because of this, CCE feels compelled to address these findings at least briefly here prior to responding more fully in the following sections on Findings No. 2–7.

CCE believes strongly that, in regard to the following findings, it used grant funds for costs that were reasonable, allocable, and allowable and that there were written procedures specifying how it was to do so. (In fact, the written procedures were presented to the auditors by CCE.) Whatever technical errors might have been made in CCE's fiscal management of these funds, these errors did not invalidate their reasonableness, allocability, or allowability and did not divert these funds from their proper use to further the ED-approved goals of the programs.

The auditors state that

- \$365,959 of non-personnel costs were “improperly charged.” These included,
  - \$172,141 in Other Direct Costs included in the ED-approved budget, spent for costs specified in the budget, and accounted for. The auditors claim these costs should have been included in the Indirect Cost section of the budget; however, such Other Direct Costs have been included in the ED-approved budgets for more than 20 years. In fact, these costs relate directly to these projects and were properly treated as direct costs of the project. Nevertheless, if ED wants them included in the Indirect Cost section, CCE will begin the practice of including these costs in that section, but it is unfair to attempt to penalize CCE after the fact when the grant budgets and Indirect Cost rates have previously been approved by ED.
  - \$157,627 (actually \$115,165 due to an auditor’s error in entering one invoice twice in their calculations) for the costs of hardcover editions of CCE texts. CCE believes this was a legitimate expense.
  - \$29,722 for what CCE claims was severance pay and the draft audit report claims were settlement costs and therefore unallowable. CCE contests the draft audit report’s findings, as explained in its response to Finding No. 4.
  - \$6,469 for costs the draft audit report claims were hotel costs above U.S. General Services Administration (GSA) rates, unallowable meal costs, etc. As noted under Finding 4 below, CCE has reimbursed grants for those costs it agrees were unallowable.
- \$1,483,128 of non-personnel costs “were unsupported.” These included the following:
  - \$1,465,159 for the printing costs of textbooks, which CCE will show in Finding No. 2 are supported by adequate documentation (see Table 5 in the draft audit report).
  - CCE addresses the issue of the remaining \$17,969 in its response to Finding No. 5, below. In some instances, this amount include unsupported costs mistakenly charged to ED grants. In such situations, CCE has already reimbursed the grants. In other cases, CCE believes the costs were supported and provides its evidence in its response to Finding No. 5. The costs are as follows:

- \$2,763 in charges to the We the People grant, composed of \$849 in airfare costs, \$186 in apartment lodging costs, \$446 in travel costs, \$1,131 in travel costs, and \$151 in unsupported costs.
- \$15,206 in charges to the Cooperative Program grant, composed of a \$10,748 consultant contract, \$2,065 in airfare costs, \$186 in apartment lodging costs, \$437 in travel costs, and \$1,770 in unsupported costs.

Finally, CCE disagrees that the facts support the OIG recommendation that CCE should be designated as a “high-risk grantee” as explained below.

### **CCE response to recommendations for Finding No. 1**

- 1.1 The funds were obligated at the beginning of the grant period as set forth on pages 5–7, above.
- 1.2 No costs were “obligated...after the applicable grant’s expiration date.” Legally obligated costs were paid “after the applicable grants’ expiration date” and it is CCE’s understanding that such costs are allowable if they were obligated during the grant period.
- 1.3 CCE has revised its procedures to ensure the timely signing of all contracts. These revisions will ensure that obligated funds are not paid after a grant’s period of availability (see Attachment G).
- 1.4 As noted above and in Attachment D, CCE drew down an average monthly \$63,780 *less* in ED grant funds than it was expending. This resulted in CCE using a total of \$765,360 of its own funds, which were advanced to its ED programs during the audit year. These funds came from CCE’s discretionary and other non-ED funds. For this reason, the CCE grants functioned in effect on a cash-reimbursement basis. CCE did not have a cash balance of ED grant funds in excess of its needs. In any event, we question ED’s authority to seek a recovery of funds related to advance drawdowns by CCE. CCE earned no interest on any of these drawdowns. Section 452 of GEPA authorizes ED to seek a recovery of grant funds if the grantee has made an unallowable expenditure or failed to discharge its obligation to account for funds under the grant. There is no authority for ED simply to impose penalties for any type of violation that does not involve improper use of funds or a failure to account. An inappropriate gap in the timing between drawdown and expenditure of federal funds involves neither an improper use of funds nor a failure to account. Neither ED nor Treasury regulations specifically mandate a three-day time limit for expending drawn-down funds by nonprofit organizations. On the contrary, 34 CFR 74.52 merely contemplates that ED may require recipients to report the amount of cash advances received in excess of three days. There is also no basis for implementing this recommendation for subsequent fiscal years.
- 1.5 As explained in 1.4, no cash is held in excess of the ED grants’ immediate needs.

- 1.6 As noted in 1.4, CCE has consistently drawn down fewer ED funds than necessary to meet the immediate needs for the performance of grants.
- 1.7 CCE strongly objects to this recommendation. Engaging in such a time-consuming and expensive task is unnecessary given the scope and nature of the issues identified in this audit and the corrective actions that already have been taken by CCE. The discrete issues identified in the draft audit report do not remotely justify the sweeping 100% audit recommended in the draft report for 2007-08 and subsequent fiscal years, particularly given the improvements that CCE has made in processes related to these issues. Further, this recommendation would be counterproductive and hamper CCE's capacity to fulfill its major programmatic responsibilities.
- 1.8 CCE has revised its written policies and procedures, embarked on a regular program of staff development in their use, and assigned its director of administration the task of overseeing compliance with federal regulation in all of its programs.
- 1.9 CCE will be pleased to obtain such an attestation.
- 1.10 CCE strongly objects to the recommendation that it should be designated as a high-risk grantee and believes an objective and impartial review of its response to this audit and the improvements in fiscal management it has put in place should persuasively support its position. As noted above, the issues identified in this audit do not meet regulatory standards (34 CFR 74.14) for identifying a grantee as high risk. In particular,
- CCE does not have a history of poor performance. On the contrary, its performance has been exemplary and it has accomplished significant programmatic results consistent with its grants' purposes. Moreover, it has been subject to independent annual A-133 audits without any significant problems being raised;
  - CCE is financially stable;
  - CCE has a financial management system that meets applicable regulatory standards. The issues identified in this audit do not implicate the soundness of CCE's financial management system, but at most reflect misunderstandings by particular employees of discrete processes for accounting for federal grant funds, and procedural changes have been effected in these areas;
  - CCE has conformed to the terms and conditions of previous awards, taking into account the possible misunderstandings noted above and the very minor unallowable expenditures;
  - CCE is responsible and takes its grant obligations very seriously.

## **Finding No. 2—“CCE Did Not Distribute the Number of Free Textbooks Specified in Its Proposal and Improperly Charged the WTP Grant for the Costs of Retail Textbooks”**

### **A. Number of Free Textbooks Distributed**

The draft audit report states that CCE “distributed fewer free textbooks than specified in the Proposal for the project period.” The auditors cite EDGAR 74.25 (a) and (b) as follows:

*“The budget plan is the financial expression of the project or program as approved during the award process” and that grant recipients are “required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section.”*

**CCE response regarding the distribution of texts.** The draft audit report’s statement is incorrect. CCE actually distributed more free textbooks than specified in its proposal. The draft audit report states that “In the budget submitted as a part of its Proposal, CCE specified the number of free textbooks that would be distributed from May 1, 2007, through April 30, 2008.” This is not true. Neither the budget nor the budget notes specify the number of textbooks to be distributed for free. The narrative of the proposal, however, clearly does set forth the number of textbooks to be distributed for free, and CCE met and exceeded that number. The difference between the number of free texts distributed and the larger amount printed was clearly set forth in the approved proposal and budget.

The narrative of the approved proposal (see Attachment H) provides for CCE to annually provide 25 classroom sets (30 texts per set) of the *We the People: The Citizen & the Constitution* textbooks to 435 congressional districts plus the District of Columbia and four U.S. territories, totaling 330,000 textbooks. During the audit period, CCE actually distributed 330,840 textbooks. In other words, CCE actually distributed for free 840 *more* textbooks than called for in the narrative.

The narrative also requires CCE each year to provide 10 classroom sets (30 texts per set) of its *Project Citizen* textbooks to 435 congressional districts plus the District of Columbia and four U.S. territories, totaling 132,000 textbooks. During the audit period, CCE actually distributed 146,190 textbooks; in other words, CCE actually distributed for free 14,190 *more* textbooks than called for in the narrative.

CCE indisputably more than met its free textbook distribution goals as they were set forth in the narrative of its approved proposal.

The following paragraphs address the issue of the “surplus” in texts noted by the auditors and printed pursuant to the approved budget:

- In regard to the “surplus” of 20,160 *We the People: The Citizen & the Constitution* texts (referred to in the draft audit report as “*Citizen and the Constitution*”), CCE routinely prints a small percentage of texts beyond those distributed for free according to the above formulas. These “extra” texts are provided for free for special projects that enhance the

programs or are offered for sale. As texts were sold, the grant that paid for their printing was fully reimbursed at the end of each month.

- In regard to the “surplus” of 51,810 *Project Citizen* texts, we note that initially the program coordinators in each of the 435 congressional districts, the District of Columbia, and the four territories were responsible for recruiting ten teachers to use the original *Project Citizen* text that was developed for upper elementary and middle school use. Ten classroom sets of these materials were provided to each district. With the publication of a new high school version of the text, CCE wanted to give coordinators the option of recruiting high school teachers to take part in the program. Not knowing how many high school teachers would take part, CCE printed enough texts for its customary allocation of 10 middle school sets to each district and printed enough high school texts to provide five sets to each district. After 146,190 texts had been distributed, a surplus of 51,810 of middle school and high school texts remained in inventory and was available for distribution during the next program cycle. The existence of these sets in inventory enabled CCE to diminish its printing costs for the subsequent year and to provide more funding for other approved costs, such as increased training for teachers.

As an alternative, the auditors have suggested increasing the *number of free texts* distributed to school districts during the next year. CCE did exactly that during the academic year 2008–09 when it distributed 339,630 free *We the People* texts (9,630 above its formula) and 154,230 free *Project Citizen* texts (22,230 above its formula). CCE, of course, will be pleased to state more explicitly in its future narratives what it intends to do with books published pursuant to the budget but which are above the formula for free distribution described in the narrative.

## **B. Sales of Textbooks**

**The draft audit report states that printing costs for retail textbooks were charged to the We the People grants.**

The draft audit report indicates that CCE charged all textbook printing costs to the We the People grants, even though some textbooks were printed for sale to school districts. The auditors cite OMB Circular A-122, Attachment A.4.a., which defines allocable costs and states the following:

*A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purposes in like circumstances and if it:*

- (1) Is incurred specifically for the award.*
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received...*

**CCE response to printing costs for retail textbooks.** The draft audit report’s description is factually accurate on this issue. However, CCE submits that its development, printing, and sales of textbooks do not appear to violate the cited OMB provisions.

- Each year, CCE’s practice is to print enough textbooks and related curricular materials to provide free sets to public and private schools throughout the United States according to the formula described above. CCE also prints approximately 10% more texts than are needed to meet its free distribution formula requirements. These texts are also used to further the grant programs’ goals. For example, some are provided for free for special teacher training programs and other programmatic activities, some are provided for free as examination copies to persons interested in the possibility of taking part in CCE programs, and some are sold.

The texts sold to schools or school districts result in the expansion of CCE’s programs to more teachers and students than are reached through the free texts that are distributed. If texts are sold, CCE fully reimburses whatever grant paid for their printing on a monthly basis. All credits from the sales of these texts were added to the appropriate ED grant account and used for allowable costs that advanced the goals of the program. Indeed, during the audit period, \$153,607 was credited to the grant account to pay for the texts sold. CCE believes that this policy furthers the basic statutory goal of reaching as many teachers and students as possible and should be allocable to the grant since it clearly “benefits the award.” We do not believe that this practice caused any harm to a federal interest that would justify any further repayment of these funds.

- According to EDGAR, 34 CFR 74.24(h), grantees can not only print and distribute textbooks as CCE has done, they can also enter into contracts with private publishers, receive royalties from them, and use those royalties in any way they please, including personal gain. In such situations, the grantee is not accountable to ED for the use of the funds, which might or might not be used to further the goals of the grant used to produce them.

In contrast, CCE publishes and sells its texts to benefit the award by furthering the statutory goal of reaching more teachers and their students. These outcomes are far more beneficial to ED and the taxpayer than the practice clearly allowed by EDGAR of allowing grantees, for example, to develop texts, enter into contracts with commercial publishers, and gain royalties from sales upon which there are no restrictions. ED program officials have been aware of this practice for years and have not objected to it.

**The draft audit report states that CCE used grant funds to pay for textbooks exclusively for sale.**

The draft audit report notes that during the audit period, \$157,629 (it was actually only \$115,165—the auditors counted one invoice for \$42,463 twice) was used to print hardcover copies of the texts exclusively for sale.

**CCE response to charges for textbooks for sale.** The description of the procedures used



regarding hardcover texts is factually accurate. Although the vast majority of CCE's texts are bound in soft covers, a limited number of *We the People* upper elementary, middle, and high school texts are bound in hardcover and charged to ED grants. This is because some school systems will not adopt or purchase texts or implement the program unless they are available in hardcover. During the audit period, \$29,523 was credited to the grant account to pay for the costs of hardcover texts sold. As noted above, this practice furthered program goals by bringing more teachers and students into the program.

Pending an ED decision regarding the CCE response to the audit findings on the matter of printing texts for sale with grant funds, CCE will continue to maintain complete records of texts sold and texts held for sale in its inventory. If ED disallows these costs, CCE will reimburse open grants for the costs of the texts or refund the cost of unsold texts to ED.

**The draft audit report indicates that portions of the textbook costs were allocable to revenue-producing activities.**

The auditors state that because CCE did not separate costs of free textbooks from those for sale, they could not

- determine which printing costs should be charged to the We the People grants, and
- identify the credits for textbook sales that should be applied against the reviewed transactions.

**CCE response to portions of costs being allocable to revenue-producing activities.** CCE initially charges all printing costs to its ED grants. It then each month reimburses those grants for the costs of texts sold. This constitutes an after-the-fact determination of which costs were allocated to the grants and which were allocated to CCE's publishing fund. A review of the charts in Attachment I will reveal that—

- During the audit period of August 1, 2007, to July 31, 2008,
  - The cost of hardcover texts printed was \$115,118. The grant was credited \$29,523 for the cost of texts sold.
  - The cost of softcover texts printed was \$1,924,411 (most of these books, however, were not sold but distributed for free). The grant was credited \$124,084 for the costs of texts sold.
- During the subsequent period from August 1, 2008, to May 31, 2009,
  - The cost of softcover texts printed was \$1,259,974 (most of these books, however, were not sold but distributed for free). The grant was credited \$76,254 for the costs of texts sold. In addition, although no hardcover texts were printed during this period, the grant was credited for \$21,607 for costs of texts sold.

**The draft audit report states that the current practice poses a risk to ED.**

The draft report states that—

*Because CCE charges all printing costs to the WTP grants, and then reimburses the grants only for the printing costs of those textbooks sold, the grants are absorbing all the risk for the costs of any unsold textbooks.*

**CCE response regarding risks for the costs of unsold textbooks to ED.** CCE attempts to hold as few texts in inventory as possible to minimize storage costs. For each academic year, it prints the number of free textbooks it is required to provide and an estimated 10% over this number for additional free distribution or sales. That percentage is based on estimated needs for free distribution and estimated sales, which are based on prior years' free distribution and sales. Any free texts not distributed or unsold texts are taken into account in determining how many texts to print for free distribution and sales for the subsequent year. Textbooks are never wasted or disposed of. Therefore, there is no risk to the government for the costs of unsold textbooks. As noted above, ED grants are reimbursed on a monthly basis for the costs of texts sold.

**The draft audit report states that there is no assurance that grants are being reimbursed.**

The draft audit report states the following:

*In addition, the WTP grants may be charged for textbooks that are not sold until after the end of the grant period and there is no assurance that the grants are being reimbursed for all the printing costs for those textbooks.*

**CCE response regarding the reimbursement of grants.** The fiscal records of CCE are accurate and transparent. The monthly reimbursement of grants for texts sold is accurately recorded. As noted above, any texts not distributed for free or sold during a grant period are held in inventory to be distributed for free or sold during the subsequent grant period. If sold during a subsequent grant period, the costs of those texts is credited on a monthly basis to that grant which is, in fact, a continuation of the programmatic activities of the former grant, authorized by Congress.

**CCE response to recommendations for Finding No. 2**

- 2.1 During academic year 2008–09, CCE increased the free distribution of *We the People* texts by 9,630 and *Project Citizen* texts by 22,230 in response to requests from the field. CCE will continue to distribute as many free texts as possible in subsequent years.
- 2.2 Each year, CCE implements procedures to distribute free textbooks in accordance with the distribution amounts stipulated in its proposal, and it will continue to do so.

2.3 During the audit period, 1,006,196 textbooks and related curricular materials were printed for free distribution and sales and charged to the ED grants, totaling \$2,080,621. The ED grants were fully reimbursed \$172,151 for the printing costs of materials sold. These texts and related materials were as follows:

- *We the People: The Citizen & the Constitution*
- *Project Citizen*
- *Elements of Democracy*
- *American Legacy* pocket Constitution
- *Representative Democracy in America Instructional Guide* and DVD

2.4 CCE has provided this documentation as summarized in its response on pages 20-24 and in Attachment I and will be pleased to provide whatever further documentation ED might request.

2.5 As noted above, CCE contests the finding that only texts to be distributed for free can be charged to ED grants. However, CCE will, of course, implement any resolution of the audit resulting in a decision that printing costs under grants must be limited. Again, there is no harm to any federal interest identified in these recommendations that warrant a financial repayment from CCE, given that it has already reimbursed the grants for these costs.

## **Finding No. 3—“CCE Used Predetermined Percentages for Personnel Costs Charged to the WTP and Cooperative Program Grants”**

### **A. Accounting for Employee Time Distribution**

The draft audit report states that employees’ preparations of monthly timesheets were based upon “predetermined percentages provided by CCE management.” As a result, the report states that auditors were unable to determine whether \$3,209,373 charged to ED grants for personnel costs were reasonable and allocable to the grants. The auditors state that CCE did not meet one of the four standards contained in OMB Circular A-122, Attachment B, paragraph 8.m(2)(a) which states the following:

*The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.*

The draft audit report also states that the CFO initially informed the auditors that CCE did not have procedures for employees to follow in completing monthly time sheets, but that CCE corrected the CFO’s misstatement by informing the auditors that CCE did, in fact, have policy, procedures, and personnel manuals that provided such instructions (see Attachment F).

**CCE response regarding accounting for employee time distribution.** During the audit period, CCE had approximately 75 full time employees. Of these, on average, 28 were assigned to single grants and 47 were assigned to multiple grants. All employees kept yellow “worksheets,” on which they entered their total daily hours, sick leave, and vacation leave after the fact. Employees assigned to multiple grants were informed what percentage of their time they were expected to work on each grant. These assignments were not “*estimates determined before the services are performed.*” Rather, these entries represented assigned time where employees were told, for example, that management expected them to devote 100% of their time for Grant A or 50% of their time for Grant A and 50% for Grant B. Since, during the audit period, CCE had 19 budgets for grants and funding from other sources, the CFO, in concert with program directors, was trying to manage staff time allocations to ensure staff fulfilled obligations to the various grants and maintain both a measure of control over the overall expenditures for staff salaries and a proper balance of expenditures to the various grants to which staff had been assigned.

At the end of each month, employees recorded their time on a formal CCE time sheet and signed the time sheet. The policy in effect was as follows: if a staff member assigned to multiple grants determined that his or her hours varied from the assigned percentages, he or she would notify the CFO. The CFO would then change the assigned percentages on the time sheet to reflect the employee’s new reported allocations. Staff assigned to single grants, who worked for 100% of their time under that grant, filled out their time sheets accordingly. Furthermore, during the auditors’ interviews of employees assigned to multiple grants, staff stated that they had completed their time sheets accurately.

While the majority of time sheets were not revised from the originally budgeted time allocations, about 40% of the monthly time sheets for employees who worked under multiple grants (24

employees) reported variations in their time allocations during the audit year (see examples in Attachment M). Most of the employees who reported changes from budgeted time held management positions that were likely to involve unpredictable assignments that could affect budgeted time. By contrast, it was not unreasonable for CCE management to assume that lower-level employees would routinely adhere to their budgeted time allocations, consistent with legitimate management needs.

It can be argued that CCE should have been more aggressive in challenging a lack of revisions in the reported time distributions between grants from the time originally budgeted among many employees. Nevertheless, we believe that CCE's system did comply with applicable regulations and cost principles. Employees filled out work sheets, completed and signed monthly time sheets after the fact, and were subject to supervision that confirmed their presence and productivity. A significant percentage of the monthly time sheets included revisions from the budgeted time.

Nevertheless, the auditors have challenged the veracity of the staff assigned to multiple grants and even stated, "We have no assurance that employees charging their salaries entirely to one grant were actually working 100% of their time on the grant." Although some employees may not have exercised as much care as they should have in completing monthly time sheets, we believe strongly that the after-the-fact time sheets were essentially accurate and complied with the mandated accounting process, and there is no basis for OIG to call into question the veracity of CCE staff.

CCE vigorously asserts, and its record of success circumstantially, if not directly, demonstrates that all staff members fulfilled or exceeded their required hours and all staff members executed their responsibilities to the single or multiple grants to which they were assigned. The work was performed, fair value was received, and time sheets were signed by employees on a monthly basis after the work was completed. These personnel costs should not be disallowed.

**Change in CCE policies and procedures.** Although CCE does not believe its former procedure violated OMB Circular A-122, B, paragraph 8.m(2)(a), CCE has established new and more rigorous procedures for completing monthly time sheets, which have been in place since August 2008 (see Attachment J). Based on the auditors' concerns, CCE has modified its former policy by eliminating the yellow work sheets, providing a formal time sheet at the beginning of each month including assigned percentages, and requiring all employees to enter hours worked on a daily basis, allocating time to the grant or grants on which they have worked. Oversight of compliance with this new policy is now the responsibility of the director of administration, who checks all time sheets before they are sent to the fiscal office. All staff have been instructed in this new policy, and the policy itself has been incorporated into CCE's policy manual.

### **CCE response to recommendations for Finding No. 3**

3.1 CCE believes it has provided adequate documentation for staff salaries. All staff fulfilled their responsibilities, and all goals of the various ED grants were met as specified in proposals and budgets. However, CCE would be pleased to provide whatever additional documentation ED might require.

3.2 As noted above, CCE has implemented stringent new policies for personal activity reports as specified in Attachment J.

**Finding No. 4—“CCE Charged Costs to the WTP and Cooperative Program That Were Not Reasonable, Necessary, or Allocable to the Programs”**

**A. Severance Pay**

The draft report challenges the costs noted below and cites OMB Circular A-122, paragraph 8.k(1), which states the following:

*In determining the reasonableness of a given cost, consideration shall be given to:*

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.*

**The draft audit report states that CCE charged employee settlement costs as severance pay.** The auditors claim that \$29,722 plus related fringe benefits that CCE charged to grants was not allowable severance pay, but settlement costs. They refer to the following material from OMB Circular A-122.

*(1) Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by*

- (a) law,*
- (b) employer-employee agreement,*
- (c) established policy that constitutes, in effect, an implied agreement on the organization’s part, or*
- (d) circumstances of the particular employment.*

**CCE response regarding severance pay.** CCE believes the \$29,721 in costs constitute severance pay and therefore may be charged to grants under OMB Circular A-122, Attachment B, paragraph 8.k. These post-termination payments were received by two CCE employees; one who worked at CCE for twenty years, the other for five years.

The OIG report also states that CCE’s CFO said these payments were made “to avoid lawsuits.” Although there is a kernel of truth in this statement, what it implies is completely inaccurate. During the course of negotiating severance pay, both former CCE employees engaged the services of attorneys, hardly a remarkable fact, particularly in California. Nor is it remarkable, in our litigious society, that someone whose employment has been terminated, and who is in a protected class under labor law, might use the threat of a lawsuit and the resulting substantial legal costs as a negotiating ploy to increase severance pay, no matter how false such a potential claim might be. Having said this, *at no time was such a threat of potential legal action ever specifically conveyed to CCE.* No legal action or claim was ever filed. There were no legitimate claims that could be filed by these employees. Still, when considering the terms of a severance settlement, CCE certainly considered the potential costs of what would amount

to a nuisance suit. And this is what CCE's CFO was referring to when he spoke with the auditors. CCE considers the payments to be prudent.

These were legitimate severance costs paid to two employees who had worked for CCE for a combined twenty-five years. These payments meet the literal definition of "severance pay" in OMB Circular A-122: "[severance pay]...also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated" (paragraph 8.k). They also meet the conditions for the allowability of severance pay stipulated in the OMB Circular, since they were made pursuant to an employer-employee agreement or "circumstances of the particular employment."<sup>25</sup> The payments were reasonable, allocable to ED grants, and consistent with OMB cost principles on severance pay. Nothing in the OMB circulars or ED regulations bars these payments.

The draft audit report also states that CCE did not follow its stated practice of charging post-termination payments to the last grant or grants to which the terminated employees were charging time prior to termination. It is true that, in this case, post-termination payments to each employee, though initially charged to the grants each employee last worked on, were subsequently switched to different grants supporting the same programs. CCE did this for a very simple reason: the grants the employees had last worked on had ended. Having ended, these grants could no longer support the post-termination payments, hence there was no alternative but to make payments from other grants under which the employee had worked. This may be seen in the following schedule of payments and percentages charged to grants for the employee whose time allocation was questioned by the auditors.

- January 07: Final month of full time employment. Time charged 30% to G&A, 50% to WTP, and 20% to RDA.
- February 07: Employee worked 112 hours and then took sick leave and vacation time. Time charged was the same as January.
- March 07: Employee took vacation time and sick leave. Time charged as in January and February.
- April–July 07: Employee on disability leave.
- August 07: Employee took vacation time. Time charged as in January–March.
- September 07–February 08: Disability leave.
- March 08–July 08: Severance period. Time charged 20% to G&A and 80% to WTP.

---

<sup>25</sup> Nothing in the OMB Circular or in ED grant regulations requires the employer-employee agreement for severance to apply to all employees of the grantee or limits circumstances of the particular employment that may reasonably support severance payments. In addition, nothing in any of these provisions excludes payments that come within the definition of severance pay simply because they may have been made to settle potential litigation with an employee. We note that in *Secretary of the Army v. TECOM, Inc.*, (FedCir. 2008cv1171, May 19, 2009), a federal court ruled that, under the FAR, a contractor's settlement costs could be charged to the government if there was "very little likelihood of success" of a potential plaintiff's claims. See also *Boeing North American, Inc. v. Roche*, 298 F.3d 1272 (Fed. Cir. 2002). As mentioned, no threat of a specific claim was ever conveyed to CCE by the two employees in question. No threat was ever conveyed because no claim ever existed that could have withstood a summary judgment motion. Therefore, on this basis, we believe there is an argument that even if these costs were deemed to be settlement costs, they could still be charged to the government as a prudent step to save the expense of litigation.



With respect to the issue of charging 80% of the severance costs to the WTP grant, this was done because the RDA grant had ended, there had been an unanticipated increase in charges to CCE's G&A account, and WTP was the most reasonable grant in which to allocate the charge because more of the employee's time had been devoted to that grant than any other grant.

## **B. Travel and Business Costs**

**The draft audit report states that CCE charged travel and business costs that were not reasonable or allocable to the grants.** The auditors suggest that some travel and business costs were improperly charged to CCE's domestic and international grants. CCE acknowledges some of these findings and has reimbursed the applicable grants. CCE disagrees with others. Both are explained below in relation to specific findings.

**Travel costs.** "CCE...charged \$3,566 to the Cooperative Program grant...for one...flight...for the Executive Director's spouse."

**CCE response.** The finding is correct, though the charge was the result of a CCE bookkeeping error. However, the auditors' statement, "After we informed the CCE of the improper charge, CCE adjusted the Cooperative Program grant and charged its unrestricted account for the airfare cost," is incorrect. It was CCE staff that discovered the error after providing the travel voucher to the auditors. The charge was a bookkeeping error, and the Cooperative Program was reimbursed for the charge immediately upon discovery, before the auditors discussed the issue with CCE staff. (Note: As approved by the CCE board of directors more than 20 years ago, CCE uses discretionary funds to pay for the executive director's spouse's travel. Of the 11 trips taken during the audit period, 10 were charged to the correct discretionary account, that is, the unrestricted account which does not contain government funds.)

**The draft audit report claims that CCE charged some costs to ED grants that exceeded GSA rates.** The report states that CCE staff on travel status paid more for hotel costs than the allowable GSA rates, totaling \$1,056 charged to the We the People grant and \$390 to the Cooperative Program.

**CCE response regarding GSA rates and CCE policy.** Although it is CCE policy to limit hotel costs to GSA rates whenever possible,<sup>26</sup> it is not always possible or reasonable to do so when

---

<sup>26</sup> CCE notes that under OMB Circular A-122, paragraph 51.b., a nonprofit organization has the latitude to create a travel policy that does not specifically adhere to GSA rates. Paragraph 51.b. states the following:

Lodging and subsistence. Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the non-profit organization in its regular operations as the result of the non-profit organization's written travel policy. In the absence of an acceptable, written non-profit organization policy regarding travel costs, the rates and amounts established under subchapter I of Chapter 57, Title 5, United States Code ("Travel and Subsistence Expenses; Mileage Allowances"), or by the Administrator of General Services, or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

As mentioned, the Center attempts at all times to follow GSA rates, but permits exceptions under certain well-defined circumstances which themselves are included in Subpart D-Actual Expenses, sections 301-11.300 through 11.306. We believe these exceptions constitute a reasonable and appropriate travel policy that comes within the provisions of OMB Circular A-122, Paragraph 51.b.

(1) the only hotels available within a reasonable distance of places where staff must do business refuse to honor the rate, (2) attending conferences or conventions in hotels with fixed prices above the GSA rates, or (3) hotels above GSA rates are closer to places where CCE must do business, which results in reduced transportation costs. In such instances, CCE uses policies in Subpart D-Actual Expenses, sections 301-11.300 through 11.306 41, Code of Federal Regulations (CFR), Chapters 300 through 304 to guide its practices.

In regard to the hotel costs charged to the We the People program grant, the auditors found that CCE staff paid \$1,056 above the allowable GSA rates (see Enclosure 2 of the draft audit report). Of this sum, \$770 was for ten nights' lodging in hotels where conferences and conventions were held at a cost of \$77 per night above the GSA figure. These were conferences of the National Council for the Social Studies in San Diego, the National Middle Schools Association in Houston, and the Southern Political Science Association in New Orleans. Staff attendance at these conferences was important in furthering the goals of its ED programs and there were no reasonable alternatives. Payment of such costs is allowable under the CFR as noted above and the CCE policy manual, which is consistent with applicable federal regulations (see Attachment K).

The remaining costs of \$286 (\$40 above the GSA rate per night for 7 nights) were for the least expensive hotels reasonably close to where staff had to do business. However, CCE cannot readily document this claim, so it has reimbursed the grant.

In regard to the Cooperative Program grant, the auditors found that CCE staff paid \$1,686 for 8 nights' lodging with an average payment of \$48.75 per night over the GSA rates totaling \$390. At the time CCE made the staff reservations for the hotel in Washington, D.C., the hotel refused to honor the GSA rate and there were no other hotels available within a reasonable distance of where CCE staff had to do business.

**Change in CCE policies and procedures.** In the past, CCE project directors have given verbal approval when appropriate for staff payments of lodging costs in excess of GSA rates. This procedure has been modified in CCE's written policies to require written approval by project directors and the director of administration.

**The draft audit report claims that CCE charged more for apartment lodging costs than allowable.** CCE keeps an apartment in Washington, D.C., for use by the executive director, CCE staff, and others affiliated with CCE. It is a small studio apartment in a rent-controlled building with a monthly cost of \$1,117.50, including utilities. Given the high rate of hotel costs in the District, where GSA rates range from \$165 to \$233 per night, CCE has found the apartment a reasonable and useful alternative. CCE charged relevant grants \$90 per day when staff stayed at the apartment. (When the apartment is vacant, CCE pays the cost of the apartment from nongovernment funds.) The auditors find that CCE should only be charging its grants \$37.25 a day, the daily rate paid by CCE. Although CCE believes its method of accounting provided a net cost saving to the government and should therefore be allowable, CCE does not wish to dispute this issue here and has repaid the WTP grant \$527 and the Cooperative Program \$264 in compliance with the auditors' request.

**CCE note.** CCE will continue charging the amount recommended in the draft audit report pending a request to ED to reconsider the OIG findings and set a reasonable rate for CCE to charge for the use of the apartment.

### **C. Business Meals and Entertainment**

**The draft audit report challenged some costs of business meals.** The report challenged a number of costs for staff meals in situations in which they were either not on travel status, were on travel status but paid for staff not on travel status, or were on travel status and paid for non-staff. The auditors disallowed a total of \$442 charged to the WTP grant and \$223 charged to the Cooperative Program grant.

**Center response regarding business meals.** CCE thinks some of these costs should be considered allowable as they were necessary to maximize meeting time in the conduct of legitimate business, but will not dispute the point and has reimbursed the grants in the amounts identified by the auditors.

**Change in CCE policies and procedures.** CCE has established a written policy to ensure compliance with the standards noted by the auditors and requires any deviations from these standards to be approved by the director of administration.

#### **CCE response to recommendations for Finding No. 4**

- 4.1 As noted above, CCE continues to maintain that these costs were severance pay and not settlement costs.
- 4.2 CCE has reviewed its monthly time sheets for the periods specified by the auditors and determined that there were no severance or settlement costs paid during those periods.
- 4.3 CCE's policy is not to charge settlement costs to ED grants.
- 4.4 CCE has established clear policies and procedures regarding limiting of hotel accommodation costs to GSA rates, with exceptions to be handled in accordance with Subpart D-Actual Expenses, sections 301-11.300 through 11.306 41 Code of Federal Regulations (CFR), Chapters 300 through 304. In addition, the CCE manual includes policy consistent with the CFR policy as may be seen in Attachment K.
- 4.5 CCE has refunded \$1,742 of the sum of \$2,902 to its ED grants and believes the remaining \$1,160 of expenditures were allowable for the reasons noted above.

**Finding No. 5—“CCE Did Not Properly Allocate or Provide Adequate Supporting Documentation for Other Direct Costs Charged to the WTP and Cooperative Program Grants”**

**A. Allocation of Contractual Services Costs**

**The draft audit report states that CCE charged the entire cost of contractual services to a Cooperative Program grant when the activities also benefited other grants.** The draft report claimed that “CCE charged \$10,748 to its Cooperative Program grant for a consultant who performed services that also benefited another Federal agency’s grant.”

**CCE response to allocation of contractual services.** CCE disagrees with the draft audit report’s findings and believes that the charges to the ED Cooperative Program grant for [the Contractor] services for the two invoiced periods were entirely appropriate given the context and history of the program. Her time was properly allocable to the Cooperative Education Program. The draft audit report reflects a misunderstanding of her work and role and of the distinction between ED and State Department projects.

The activities of [the Contractor] referred to by the auditors were specifically related to the goals and objectives of the Cooperative Program, for which she had been employed. Whatever benefits accrued to the Middle East Partnership Initiative (MEPI)-funded Arab Civitas program were fortuitous, incidental, and not allocable to that program.

In fact, the Arab Civitas *network*, initiated and supported with ED funds under the Cooperative Program, and the Arab Civitas Program, funded by MEPI, an initiative of the U.S. Department of State, are separate and distinct programs. As explained below, both of these activities should be seen as a part of the Cooperative Program, which includes approximately 80 partners in countries from all regions of the world.

- The Arab Civitas network is a group of organizations collaborating on civic education programs in the Middle East and North Africa. This network was formed in 2002 and has been collaborating with CCE since its inception. At different times and for nonduplicative activities, it has been supported under the Cooperative Program grant and has received funding from the U.S. Department of State directly and through its embassies in participating countries. It has also received funding from other domestic and international public and private sources. The Cooperative Program funded by ED enables CCE to work in the following countries in the Arab Civitas network: Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, West Bank, and Yemen.
- The Arab Civitas Program, funded by the MEPI initiative of the U.S. Department of State, began at a later date, derived its name from the Arab Civitas network, and supported separate and nonduplicative activities that permitted the expansion of some of the programs in the region initiated and supported by the Arab Civitas network under the Cooperative Program.

[The Contractor] first worked for CCE under the Cooperative Program, where she was instrumental in establishing programs in Jordan. When CCE received funding from MEPI to expand and deepen its civic education activities in the region, [the Contractor] became regional coordinator of that program. These nonduplicative activities were undertaken within the context of the Arab Civitas network of the Cooperative Program. When MEPI ended its support for the regional coordination office, CCE saw the need for [the Contractor] to provide services not only to those nations in the Arab Civitas network, but to all partners worldwide in the Cooperative Program as set forth in the “Nature of Work” included below. When CCE staff referred to Arab Civitas costs being paid to [the Contractor] from the Cooperative Program, this was in reference to the Arab Civitas *network*, not to the MEPI-funded Arab Civitas program.

CCE wishes to clarify the nature of the services requested by CCE from [the Contractor] for the benefit of *all* partners involved in the Cooperative Program:

*Nature of Work. The Consultant shall advise the Center’s international program staff on strategic planning, developing civic education curricular programs and materials, communications across regional networks, organizing international events, and pursuing new sources of funding. The Consultant shall assist in the design of pilot programs, help programs in transition reassess their strategic plans, and help established programs pursue a variety of funding opportunities. [From Consultant Agreement, July–Sep 07 and Oct–Dec 07.]*

The Scope of Work quoted by the auditor was a partial list of tasks that CCE requested [the Contractor] to complete during the period; it was by no means meant to be comprehensive. CCE considered the Arab Civitas network a model of cooperation among civic educators and wished to draw on [the Contractor’s] expertise in developing pilot programs for other regions of the world as well as advising CCE on the management of civic education networks. The consultant was expected to work in close coordination with CCE staff and respond to additional task requests related to the Nature of Work stated above. Thus, it is not surprising that some tasks appeared on her monthly invoices that fit within her Nature of Work but had not been described explicitly in the Scope of Work written prior to the contractual period.

The draft audit report is incorrect in suggesting that consultant costs related to a regional office in Jordan were solely for the benefit of the MEPI-funded Arab Civitas grant.

- The Arab Civitas Regional Office supported a network of civic education organizations involved in both the MEPI-funded Arab Civitas Program and the ED-funded Cooperative Program. While most of the regional office’s activities related to the MEPI-funded Arab Civitas Program, the regional office’s work with the Cooperative Program included activities such as facilitation of communications with CCE’s Arab Civitas network partners attending the annual World Congress on Civic Education and other Cooperative Program events.
- Although [the Contractor] had formerly served as staff at the regional office, her work for MEPI terminated with the closing of the regional office. CCE then engaged her as a

consultant for the period from July–December 2007 to provide services to the Cooperative Program, including countries in its Arab Civitas network.

In 2007, as the termination of MEPI support drew near, four of CCE’s Arab Civitas network partners who had received support under that program received significant funding from CCE under the Cooperative Program. Lebanon and the West Bank and Gaza became special projects, and Jordan and Morocco were partnered with U.S. state institutions.

CCE enlisted the services of [the Contractor] to help with this transition, including assistance with communications with the partners, the development of new strategic plans, and providing advice in financial and programmatic areas based on her former capacity as a program director. [the Contractor’s] strong background in civic education content and pedagogy, nongovernmental organization management, fluency in both Arabic and English, and familiarity with CCE’s international network made her uniquely suited to the work. Having formerly worked at the regional office, [the Contractor] was the most appropriate individual to advise the regional office on financial issues related to the transition of its staff members to the Jordanian Center for Civic Education Studies, CCE’s primary Jordanian partner under the Cooperative Program.

## **B. Allocation of Lodging and Meal Costs**

**The draft audit report challenges the allocation of apartment lodging costs and meal costs.** The auditors claim that the WTP and Cooperative Program accounts were each incorrectly charged \$186 for apartment costs.

The draft report also states that \$151 was charged to the WTP grant and \$1,770 to the Cooperative Program grant with documentation that “did not contain sufficient information to determine whether the costs were reasonable and allocable to grants.”

**CCE response to apartment and meal costs.** The draft audit report is correct in finding that the apartment costs were mistakenly charged to the wrong accounts. The WTP and Cooperative Program accounts have each been reimbursed \$186.

In regard to the \$151 in meal costs charged to the WTP grant,

- \$44 was an allowable cost of a working dinner paid by the Director of the We the People program for two consultants on travel status who were planning a We the People workshop to be held on the Navajo reservation.
- \$52 was paid for dinners for two CCE staff members on travel status visiting its main office in Calabasas. \$26 was for the dinner of one of these staff members. Both meals were charged to CCE’s WTP grant. The draft audit report contends that “Documentation did not support that meal costs only benefitted the WTP grant,” since 50% of one of the staff member’s salary is charged to the Cooperative Program. CCE has credited the Cooperative Program for 50% of two meal costs totaling \$26.

- CCE has reimbursed the WTP grant for costs of \$13 on February 1, 2008, and \$16 on January 30, 2008, that were unallowable meal costs.

In regard to the \$1,770 charged to the Cooperative Program:

- \$442 was charged for dinners of 17 staff (\$26 each) on travel status attending the International Project Citizen Showcase held in Washington, D.C.
- \$717 was for meals at five restaurants in Massachusetts for a delegation of 13 Chinese educators on travel status who implement CCE's programs in China. The average cost of these meals was \$11.
- \$24 was the total cost for lunch for the executive director and director of international programs on travel status in Sacramento to meet with the Superintendent of Public Instruction of the State of California to discuss the possibility of his department taking part in the Cooperative Program with Pacific Rim nations.

The above costs total \$1,183. CCE believes these costs to be clearly reasonable, allocable to the grant, and allowable. The remaining \$587 of the total of \$1,770 was for staff meals, such as a going-away party for a staff member, that were mistakenly charged to the Cooperative Program. That grant has been reimbursed.

### **C. Allocation of Airfare and Travel Costs**

**CCE response to the auditors' request for supporting documentation for airfare costs.** The auditors requested supporting documentation for \$2,914 in airfare charged to the WTP and Cooperative Program. This was the total airfare for a trip by the executive director from Los Angeles to Russia and Washington, D.C., beginning April 26, 2008, and returning to Los Angeles on May 6, 2008. It was estimated that 70% of the executive director's time was devoted to the trip to Russia and 30% to the trip to Washington, D.C. Therefore, 30% of the total airfare, or \$849, was charged to WTP and 70%, or \$2,065, was charged to the Cooperative Program. The executive director was a speaker on the opening panel and another panel at a conference in Russia, which was attended by educators from approximately 17 countries. He was also a principal participant in the annual national finals competition of the We the People program in Washington, D.C., immediately after the Russian conference. We believe these costs were reasonable and allocable to the subject grants. The agendas for the events in Russia and Washington, D.C., attended by the executive director are included in Attachment L. CCE will provide whatever further documentation ED may require.

**CCE response to the auditors' request for supporting documentation for travel costs for a 2008 planning strategy meeting.** The draft audit report claimed that the Center did not provide sufficient documentation for costs of \$2,014 for two employees from its Washington, D.C., office to attend CCE's annual planning strategy meeting. They appear to take exception to the fact that all of one employee's expenses were charged to the WTP grant and the other employee's expenses were charged 50% to the WTP grant and 50% to the Cooperative Program grant. The reason for the difference is that the first employee works on CCE's domestic

programs and the second employee's time is split between domestic and international programs. The employees attended the planning strategy meeting and subsequent meetings at CCE. The Center will provide whatever further documentation ED would like to receive.

**CCE response to recommendations for Finding No. 5**

5.1 CCE believes it has adequately justified this cost above.

5.2 CCE believes it has adequately justified this cost above.

5.3 CCE has procedures that enable it to allocate contractor payments to two or more sources and will implement them in situations in which they are required.



**Finding No. 6—“CCE Improperly Charged the WTP and Cooperative Program Grants for Direct Costs That Were Based on Estimates.”**

**Draft audit report’s findings regarding Other Direct Costs.** The draft audit report claimed that CCE “improperly charged \$172,141 in Other Direct Costs (ODC) to the WTP and Cooperative Program grants based on estimates.”

**CCE response regarding Other Direct Cost charges.** The draft audit report claims that these costs should have been treated as indirect costs. However, whether they were direct or indirect does not implicate their allowability. CCE believes it is unreasonable and unfair to use this technicality as a means to seek reimbursement for any of these legitimate costs. CCE also believes that the draft audit report’s recommendation is arguably impermissible under prevailing case law.<sup>27</sup>

We submit that the costs in question were direct, not indirect, costs. They were costs directly and specifically related to implementation of the grants, not overhead that benefited all activities of CCE. For example, each year CCE staff make thousands of phone calls, copy thousands of pages, and mail thousands of letters and packages in support of specific grant activities. All of these are unquestionably direct costs.

Accounting for these allowable direct costs poses an enormous challenge to an organization of CCE’s size and scope. Were CCE’s budget to rival that of a Fortune 500 company, it could hire the necessary personnel, and pay for the necessary technology, to track each and every one of these transactions. But the Center must make do with a far leaner budget and staff, and so it has adopted the following procedure, which we believe is reasonable and cost-effective and identifies costs properly allocable to ED grants.

CCE’s grant budgets approved by ED (and other federal agencies) have always listed the following ODC categories: Office Space and Utilities, Photocopying, Telephone, Data Processing, and Mailing. Footnotes have been included in these approved budgets explicitly indicating that the amounts allocated to ODC budget categories are monthly estimates based on past experience. Since neither ED nor any other grant-making federal agency has ever raised an objection to these declarations in its annual IDC negotiations with CCE, CCE has quite reasonably continued this practice.<sup>28</sup>

The Office Space and Utilities category is charged based on the actual percentage of each grant’s salaries to the total monthly salaries of CCE. For example, if 50% of staff were to be charged to the WTP grant, then 50% of the Office Space and Utilities costs would be charged to that grant. For all other ODC categories, if a cost is clearly identifiable with a grant, then it is charged to that grant. All other costs are accumulated monthly by ODC category in a Suspense

---

<sup>27</sup> It is also arguable that, under prevailing case law, the draft audit report’s recommendation would amount to a retroactive indirect cost adjustment, would thus violate the terms of the Center’s negotiated indirect cost agreement, and would therefore be unenforceable. See, e.g., *Litton Industries, Inc. v. U.S.*, 449 F.2d 392 (1971). See also footnote 12.

<sup>28</sup> The fact that CCE has routinely made these declarations in its grant budgets, and that the ED has never raised an objection to these declarations, supports the argument that the draft audit report’s recommendation amounts to an impermissible retroactive indirect cost adjustment. See footnote 11.

Account. Charges are then allocated to the different grants and General and Administrative account (the indirect cost pool) in the proportion of the average monthly budgets of each of those grants in relation to the total funding of CCE.

CCE suggests there are essentially three options to solve the issue raised by the draft audit report. The first is to put all of these costs into CCE's indirect cost pool. If this had been done in the past, the total grant charges would have remained unchanged—the money would simply be allocated to a different budget category. As mentioned, however, this solution appears inappropriate since a substantial proportion of these costs are legitimate direct costs chargeable only to grants and not to the G&A costs. The second solution is to require the Center to track these time costs item by item, but this would clearly not be cost-effective given the administrative expenses needed to track the Center's thousands of ODC transactions. The third choice is the one adopted by the Center: to make a good faith, rational, and cost-effective attempt to reflect the true nature of its ODC.

CCE submits that its solution is reasonable, transparent, and cost-effective, and that it identifies costs properly allocable to ED grants. Finally, if a decision were made to treat these costs as indirect costs, that decision should apply to prospective costs, and the audit report should withdraw any recommendation for reimbursement of these costs, which—whether direct or indirect—were reasonable and properly allocable to the grants.

#### **CCE response to recommendations for Finding No. 6**

- 6.1 CCE will prospectively follow whatever procedure ED requires.
- 6.2 CCE strongly disagrees with the draft audit report's recommendation that its ODC be returned to the federal government. All costs charged to the ODC accounts were appropriately documented and were for legitimate purposes. During the grant period, CCE had 19 different sources of funding and budgets. To allocate, for example, each phone call, each fax, and each document copied to one of these sources of funding would have been extremely costly and would have diverted staff time from the programmatic goals of CCE. The procedure CCE used for allocating these costs was reasonable, practical, cost-effective, and identified costs properly allocable to the grants.

## **Finding No. 7 – “CCE Did Not Properly Execute and Monitor Its Contracts for the Cooperative Program Grant”**

### **A. Execution and Monitoring of Contracts**

The draft audit report states that “CCE did not execute its contracts timely for the Cooperative Program or ensure that contractors complied with reporting requirements.” As a result, the draft audit report suggests that CCE made federal funds vulnerable to misuse by reimbursing contractors for costs incurred before contracts were executed and by not ensuring that contractors adhered to contractual reporting requirements. EDGAR 34 C.F.R. § 74.51(a) states that “[r]ecipients are responsible for managing and monitoring each project, subaward, function, or activity supported by the award.”

**CCE response regarding the execution and monitoring of contracts.** The draft audit report claims that the “CCE did not properly execute and monitor its contracts for the Cooperative Program.” Legally binding contracts were established with principal entities receiving subawards from the initiation of the grant periods. In addition, CCE carefully monitored the programmatic performance of its contracts and has extensive documentation to prove it. Finally, to substantiate this finding the auditors selected 8 of the 133 subawards for international programs of the total of 586 subawards for domestic and international programs made during the audit year and generalized their findings to cover all of the subawards made by the Center. The subawards they selected were made to U.S. institutions that fulfilled all of their programmatic obligations, used their own money to do so, but were late in the signing of ratifying contracts and in requesting reimbursement for their own funds spent.

CCE strongly asserts that—

- legally binding and enforceable contracts existed at or before the beginning of the grant period as explained in its response to Finding No. 1 above,
- no funds were misused by the subawardees for costs incurred before the contracts referred to by the auditors were signed, and
- CCE carefully monitored the performance of subawardees from the beginning of the grant period and they fulfilled their contractual obligations.

***Indeed, the draft audit report acknowledges: “Based on our reviews of programmatic reports, we noted that the activities carried out appear to be in line with contract objectives.”***

CCE rigorously oversaw the performance of its subawardees and they fulfilled their obligations as noted in the draft audit report’s comment on CCE’s programmatic reports set forth below.

Ultimately, the three subawardees focused upon by the auditors and all of the other subawardees in the program fulfilled their programmatic obligations, and no federal funds were misused.

CCE admits that the formal, written contracts referred to by the auditors were executed far later

than they should have been and, as noted above, has established new procedures to ensure the timely execution of such written contracts. In addition, CCE acknowledges the auditors' observation that it "allowed programmatic activities for the next award year to begin without a signed contract in place." These facts do not obviate the fact that CCE did, in fact, properly oversee fulfillment of the subcontracts.

**CCE response regarding additional information on the lack of timely execution of formal contracts.** The fact that formal contracts were not executed in a timely manner does not reflect any bad faith or mismanagement on CCE's part, nor is there any harm to a federal interest arising from this circumstance.

The principal recipients of subawards under the Cooperative Program are identified in the grant proposals submitted to ED annually by CCE. They typically are funded year after year to fulfill the same programmatic objectives set forth in the authorizing legislation, which requires fulfilling many of the same programmatic tasks, although specific innovations are often added to these responsibilities. For example, the institutions receiving subawards identified by the auditors as having problematic execution dates have been partner organizations in the Civitas Exchange Program for the following number of years: (a) Co-operation Ireland, nine years (since 2000); (b) Bowling Green State University, seven years (since 2002); and (c) American Federation of Teachers, fourteen years (since 1995). These institutions and other partners are named and the funding they are to receive is specified in the proposal and budget approved by the Department of Education each year.

Prior to the beginning of each grant year, subawardees are notified of their continued inclusion in the next year's program. Subawardees are already aware of their basic responsibilities for the forthcoming grant period since they are similar to those of the prior grant period; for example, the exchange of delegations, professional development and technical assistance, and translation and adaptation of curricular materials. Subawardees are also aware that to maximize the use of taxpayer funds their activities must be coordinated with academic years and summer training programs for teachers and educational leaders.

In order to plan and conduct activities coordinated with academic years and maintain a seamless continuity between grant periods, subawardees initiate program planning activities prior to the beginning of each grant period, regardless of whether they have an approved proposal and budget and formally signed contract. The timely development and submission of subawardee proposals and budgets and the execution of formally signed contracts has been complicated a number of times by the late approval of budgets by the U.S. Congress. This has resulted in the awarding of funds to CCE by ED weeks and even months after the end of the previous grant period. (For example, this year's Cooperative award was approved in late June after being submitted in April and has a start date of July 1, 2009—four months *after* the end of the previous year's award.)

In order to maintain the momentum and efficient continuity of the partners' programs, a practice developed whereby CCE and its subawardees continued programs pending receipt of ED funds regardless of the existence of formally signed contracts. This practice explains, at least partially, why CCE did not pursue a change in the timing for execution of subcontract awards.

A further complication exists in the cases of institutions or organizations such as the three noted above that were identified by the auditors as being particularly late in the execution of their formal contracts. Each has performed in an exemplary manner for a number of years. Each prefers to work on a cash reimbursement basis, which means that as soon as a grant year begins, each incurs costs for the performance of its responsibilities as established in prior years' subawards. Each has typically been very late in submitting its proposals and budgets, signing formal contracts, and requesting reimbursement of costs despite continued urgings from CCE to do so. Since each institution or organization is using its own funds, CCE cannot withhold funds to ensure compliance as it can with other subawardees.

**Change in CCE policies and procedures.** As noted above, CCE now requires the submission of proposals and budgets and the execution of signed contracts or award notifications two weeks prior to grant periods. This will not change the practice of maintaining network activities despite delays in funding, but will avoid delays in formal execution of subcontracts noted by the auditors.

## **B. Contractor Compliance**

**The draft audit report states that “CCE Did Not Ensure That Contractors Complied with Reporting Requirements.”** It states, “CCE’s contract monitoring process did not ensure that contractors complied with periodic reporting requirements that were specified in each of the contracts. CCE’s contract terms generally required that contractors complete and remit to CCE periodic programmatic and financial reports. In seven of the eight contracts we reviewed, the contractors submitted the quarterly or semiannual financial and programmatic reports well after the specified due date.... Periodic programmatic and financial reports for three contracts were not submitted to CCE even though such reporting was stipulated as a requirement in the executed contracts. For these three contracts only a final report was submitted.... Non-adherence to contract requirements diminishes the level of assurance that the Department receives the products and services intended and puts the Department funds at risk.”

**CCE response to the assertion that CCE did not ensure that contractors complied with reporting requirements.** CCE admits that the reports referred to by the auditors were submitted well after their due dates and that the three organizations noted above did not submit quarterly reports as required, but only submitted final programmatic and financial reports and that they were submitted after the required due dates.

However, CCE strongly asserts that—

- it carefully monitored the *performance* of the three subawardees and all others throughout the grant period,
- all products and services required were provided, and
- CCE has documentation to support these facts.

*Again, the draft audit report acknowledges: “Based on our reviews of programmatic reports, we noted that the activities carried out appear to be in line with contract objectives.” It is clear that at no time during the grant period were ED funds “at risk.”*

In regard to the three subawardees identified by the auditors, as noted above, they worked on a cash reimbursement basis using their own funds to fulfill their obligations, did not submit the required quarterly reports, submitted their proposals and budgets late, and did not request reimbursement until very late. CCE did not have the option of withholding cash advances to pressure the timely submission of the required documents. However, when the organizations did request funds, CCE refused to provide them until comprehensive final programmatic and financial reports and signed formal contracts were received. It should be noted that despite their shortcomings in submitting proposals, reports, etc., the three organizations fulfilled their programmatic obligations in an exemplary manner, as they have for years.

**Change in CCE policies and procedures.** CCE has terminated its relationship with one of the institutions that was particularly unresponsive to requests for the timely submission of proper documentation. It has informed all other subawardees that they will be required to work on a cash advance basis or quarterly cash reimbursement basis, regardless of their institutional practices. CCE has instituted more stringent oversight procedures by its staff, provides periodic training to its staff in the implementation of these procedures, and now requires oversight staff to bring any problems of subawardee non-compliance to the attention of the director of international programs and, if necessary, the director of administration for resolution

#### **CCE responses to recommendations for Finding No. 7**

- 7.1 CCE has established new interdepartmental oversight procedures to ensure all contracts are properly executed before subawardees are allowed to begin their work and grant funds are disbursed.
- 7.2 CCE has implemented periodic staff training programs to increase its monitoring efforts to ensure contractual reporting requirements are met and that the contractors’ performance is in accordance with the terms and conditions of the contracts.

## **Conclusion**

The Center for Civic Education recognizes that its response to the OIG report is lengthy and complex. We believe this has been necessary to fully respond to the draft audit report, which CCE views as unduly harsh, unfair, and at times misleading. We agree that the report raises some legitimate issues relating to technical compliance with specific processes for accounting. However, we believe that CCE has met its fundamental obligations to account for proper use of grant funds; we have, in fact, properly used those funds for effective projects that delivered outstanding educational benefits consistent with the purposes of the grants. Specific misunderstandings by a small number of CCE employees on particular accounting issues do not amount to systemic deficiencies in accounting for funds. Whatever mistakes CCE made were technical in nature, committed in good faith, and had absolutely no impact on the efficacy of CCE's programs, something to which CCE and its staff are passionately and conscientiously committed. CCE also believes that the recommendation to designate it as a high-risk grantee is unwarranted and grossly unfair under the circumstances. To the extent the OIG report has indicated administrative areas where improvements can be made, CCE has used this opportunity to make those internal procedural changes to ensure that these issues are avoided in the future. Finally, we stand ready to meet with OIG staff and other ED personnel to provide any additional information and to resolve any areas of disagreement.

## **Attachments**

- A. Scope Limitation Statement from Auditors' Draft Report of February 2009
- B. Chief Fiscal Officer's Email to Staff Regarding Timesheet Procedures
- C. "Expanded Authorities Amendments" for EDGAR
- D. CCE Monthly Cash Management Analysis for the Fiscal Year Ending July 31, 2008
- E. "Memorandum to ED Discretionary Grantees" from the Chief Financial Officer of the U.S. Department of Education
- F. Excerpts from CCE Manuals Regarding Time Sheet Procedures
- G. CCE Policy Regarding Timely Execution of Contracts
- H. Excerpts from ED Proposals for 2007–08 Regarding the Formula for the Provision of Free Textbooks
- I. Accounting of Printed Textbook Free and Sales Distributions and Crediting of Grants for Sales
- J. CCE Revised Timesheet Procedures
- K. Excerpt from CCE Manuals Regarding Costs over General Services Administration Rates
- L. Agendas from Executive Director's Trips to Russia and Washington, D.C.
- M. Variations in Staff Time Allocations